

**CHEROKEE COUNTY RURAL WATER
DISTRICT # 7**

Welling, Oklahoma

**Financial Statements
&
Audit Report**

December 31, 2011

Table of Contents

Independent Auditor's Report	1
Statement of Net Assets	3
Statement of Revenues, Expenses and Changes in Fund Net Assets	4
Statement of Cash Flows	5
Notes to Financial Statements	7
Report on Compliance and on Internal Control	11

MICHAEL W. GREEN
Certified Public Accountant
827 W. Locust Street
STILWELL, OK. 74960
(918) 696-6298

**INDEPENDENT AUDITOR'S REPORT
ON FINANCIAL STATEMENTS**

Board of Directors
Cherokee County Rural Water District # 7 (Welling)
Welling, Oklahoma

I have audited the accompanying financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of the Cherokee County Rural Water District # 7 (the District), as of and for the year ended December 31, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I 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 the management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

The District did not include a Management Discussion and Analysis report that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business type activities, each major fund, and the aggregate remaining fund information of the District as of December 31, 2011, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have also issued a report dated January 9, 2012 on my consideration of the District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. 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 read in conjunction with this report in considering the results of my audit.

A handwritten signature in black ink, appearing to read "Mike Green", with a large, stylized "G" and "r" in the second name.

Michael Green
Certified Public Accountant

January 9, 2012

CHEROKEE COUNTY RURAL WATER DISTRICT #7
Statement of Net Assets
December 31, 2011

ASSETS

CURRENT ASSETS:

Cash - Operations	\$ 15,908
Accounts Receivable	20,813
Allowance for Doubtful Accounts	(6,718)
Spare Parts Inventory	11,307
Land Note	1,600
Prepaid Insurance	4,425

TOTAL CURRENT ASSETS	<u>47,335</u>
-----------------------------	---------------

NONCURRENT ASSETS:

Land	3,600
Equipment	147,201
Building	21,910
Water Distribution System	1,368,792
Accumulated Depreciation	(667,532)

TOTAL NONCURRENT ASSETS	<u>873,971</u>
--------------------------------	----------------

TOTAL ASSETS	<u><u>\$ 921,306</u></u>
---------------------	--------------------------

LIABILITIES

CURRENT LIABILITIES

Accounts Payable & Accrued Liabilities	\$ 17,566
Current Portion of Long-Term Debt	19,438

TOTAL CURRENT LIABILITIES	<u>37,004</u>
----------------------------------	---------------

NONCURRENT LIABILITIES

Notes Payable - Less Current Portion	<u>104,700</u>
--------------------------------------	----------------

TOTAL NONCURRENT LIABILITIES	<u>104,700</u>
-------------------------------------	----------------

TOTAL LIABILITIES	<u>141,704</u>
--------------------------	----------------

NET ASSETS

Invested in Capital Assets, Net of Related Debt	749,833
Net Assets: Unrestricted	29,769

TOTAL NET ASSETS	<u><u>\$ 779,602</u></u>
-------------------------	--------------------------

The notes are an integral component of the financial statements.

CHEROKEE COUNTY RURAL WATER DISTRICT #7
Statement of Revenues, Expenses, and Changes in Fund Net Assets
For the Year Ended December 31, 2011

OPERATING REVENUE:

Charges for Services:

Water Sales	\$ 283,514
Membership Fees	6,750
Late & Other Fees	20,861
TOTAL OPERATING REVENUE	<u>311,125</u>

OPERATING EXPENSES:

Water Purchased	157,482
Employee Expense	66,420
Advertising	-
Depreciation	49,398
Repairs & Maintenance	10,429
Insurance	7,892
Supplies	6,740
Legal & Professional	31,988
Water Testing	65
Telephone	3,968
Utilities	9,064
Contract Labor	-
Vehicle Expense	9,005
Miscellaneous Expense	17,747
Bad Debt Expense	2,135
Office Expense	4,009
TOTAL OPERATING EXPENSES	<u>376,342</u>

NET INCOME FROM OPERATIONS	<u>(65,217)</u>
-----------------------------------	-----------------

NONOPERATING REVENUE (EXPENSE):

Interest Income	-
Interest Expense	(4,826)
TOTAL NONOPERATING REVENUE & EXPENSE	<u>(4,826)</u>

NET INCOME	(70,043)
-------------------	----------

NET ASSETS, BEGINNING OF YEAR	<u>849,645</u>
--------------------------------------	----------------

NET ASSETS, END OF YEAR	<u><u>\$ 779,602</u></u>
--------------------------------	--------------------------

The notes are an integral component of the financial statements.

CHEROKEE COUNTY RURAL WATER DISTRICT #7
Statement of Cash Flows
For the Year Ended December 31, 2011

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers	\$ 322,874
Payments to Suppliers	(271,503)
Payments to Employees	(66,420)
Net Cash Provided (used) by Operating Activities	<u>(15,049)</u>

**CASH FLOWS FROM CAPITAL AND RELATED
FINANCING ACTIVITIES**

Acquisition and Construction of Assets Net of Disposals	(6,948)
Increase in notes receivable	(1,600)
Net Increase(Decrease) in Capital Debt	21,077
Interest Paid on Capital Debt	(4,826)

**Net Cash Provided (used) by Capital and
Related Financing Activities**

7,703

CASH FLOWS FROM INVESTING ACTIVITIES

Net Cash Provided (used) by Investing Activities

-

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

(7,346)

CASH & CASH EQUIVALENTS - BEGINNING OF THE YEAR

23,254

CASH & CASH EQUIVALENTS - END OF THE YEAR

\$ 15,908

The notes are an integral component of the financial statements.

CHEROKEE COUNTY RURAL WATER DISTRICT #7
Statement of Cash Flows -Cont.
For the Year Ended December 31, 2011

**RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH
PROVIDED (USED) BY OPERATING ACTIVITIES**

Operating Income	\$ (65,217)
Adjustments to Reconcile Operating Income to Net Cash Provided (used) by Operating Activities:	
Depreciation Expense	49,398
Change in Assets and Liabilities:	
Accounts Receivable	11,749
Inventory Increase	(11,307)
Accounts Payable & Accrued Liabilities	328
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ <u>(15,049)</u>

The notes are an integral component of the financial statements.

CHEROKEE COUNTY RURAL WATER DISTRICT #7

Notes To The Financial Statements

The Cherokee County Rural Water District #7 (the District) was organized under the Rural Water District Act of Oklahoma for the purpose of acquiring water and water rights, and to build and acquire pipelines and other facilities and to operate the same for the purpose of furnishing water to serve the need of owners and occupants of land located within the district.

Note 1.: Summary of Significant Accounting Policies

Basis of Presentation

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. Since the water district is engaged only in business type activities it is not required to present government-wide statements.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the water district or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the water district are described below:

Proprietary Funds

Enterprise Funds - Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises--where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided

that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The water district believes that its fund is in this category since it relates to or provides for a business type activity.

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus and Basis of Accounting

Measurement Focus

On the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-like activities would be presented using the economic resources measurement focus as defined in item b. below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

- a. All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.
- c. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

A. Basis Of Accounting

The financial statements of the District, have been prepared on the accrual basis of accounting. The accrual basis of accounting recognizes revenue when it is earned rather than received, and recognizes expenditures when they are incurred rather than paid.

B. Accounts Receivable

Accounts receivable consist of trade receivables. An allowance for bad debts has not been established, however, bad debts that appear to be uncollectible are written off at the end of the year. The direct write-off method is used for this purpose.

C. Cash & Cash Equivalents

The Water District has a policy of recognizing investments in CDs or savings that mature within 90 days of the financial statement date as cash or cash equivalents. For the purposes of the cash flows statements, any reserve cash, is considered to be a cash equivalent. At year end the balance of bank cash was \$15,908, all of which was secured by FDIC.

D. Income Taxes

The Water District is exempt from paying income taxes under the Internal Revenue Code Section 115.

E. Inventories

The Water District has no material inventories. Materials are expensed when they are purchased.

F. Additions & Deletions to Fixed Assets

During the course of the year the Water District purchased a new building, new equipment, a new computer, new software, and new office furniture.

G. Fixed Assets

Property, plant and equipment are stated at their historical cost. Depreciation is recorded using the straight-line method over the useful life of the asset.

	Balance at			Balance at
	Dec 31, 2010	Additions	Deletions	Dec 31, 2011
Land	\$ 600	3,000		3,600
Equipment	146,600	600		147,200
Building	27,910		6,000	21,910
Water Distribution System	1,359,444	9,349		1,368,793
Accumulated Depreciation	(618,134)	(49,398)		(667,532)
Net Fixed Assets	\$ 916,420	(36,449)	6,000	873,971

H. Long-Term Debt

On February 6, 2004, the District borrowed \$75,000 from Bank of Cherokee County to pay off the First State Bank loan. This loan is an open end credit with a total amount available not to exceed \$200,095. The loan has an interest rate of 5.25% and a fixed monthly payment amount of \$1,610.77 until the loan is paid off. At December 31, 2011 the balance of the loan was \$118,810.

On July 17, 2009, the District purchased a 2010 Ford F 350 Truck. This loan was made with the Bank of Cherokee County. The loan is for 36 months at 5.25% with monthly payments of \$876.76. At December 31, 2011 the balance of the loan was \$5,328.

Current maturity of principal and interest for the next five years under the indebtedness mentioned above is as follows:

	TRUCK		LINE OF CREDIT	
	Bank of Cherokee County		Bank of Cherokee County	
	Principal	Interest	Principal	Interest
2012	6,027	106	13,411	5,918
2013			14,133	5,197
2014	-	-	14,893	4,437
2015	-	-	15,694	3,636
2016	-	-	16,538	2,782

I. Claims and Judgements

From time to time the District participates in federal and state programs that may be fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to non-compliance with grant program regulations, the District may be required to reimburse the grantor government. No provision is made in the financial statements for these possible contingencies.

J. Pension Plans

The Water District does not provide retirement benefits to its employees other than the payroll payments to the social security retirement system.

K. Compensated absences

The Water district has no material compensated absence amounts.

MICHAEL W. GREEN

Certified Public Accountant

827 W. Locust Street
Stilwell, Ok. 74960
(918) 696-6298

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*

Board of Directors
Cherokee County Rural Water District # 7 (Welling)
Welling, Oklahoma

I have audited the financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of the Cherokee County Rural Water District # 7, as of and for the year ended December 31, 2011, which collectively comprise the Water District's basic financial statements and have issued my report thereon dated August 25, 2011. I conducted my 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

In planning and performing my audit, I considered the Cherokee County Rural Water District # 7's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my 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, I do not express an opinion on the effectiveness of the Water District's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, I did note that due to the lack of sufficient personnel there is not adequate segregation of duties. I believe this is a material weakness. The District's response to this deficiency is to inform the board of directors of day to day activity in more detail than might normally occur. I did not audit the District's response and, accordingly, I express no opinion on it.

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. I consider the deficiency described above to be a material weakness.

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. I consider the deficiency described above to be a significant deficiency. The District's response to the above finding is described above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Cherokee County Rural Water District # 7's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Response to findings identified in my audit is described above.

This report is intended for the information of the audit committee, management and federal and state awarding agencies and is not intended to be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read 'Mike Green', is positioned above the printed name.

Michael Green, CPA
January 9, 2012