

*Independent Auditor's Report*

*Rural Water, Sewer, Gas and Solid Waste  
Management*

*District No. 7, Grady County*

*May 31, 2012*

**RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT  
DISTRICT NO. 7, GRADY COUNTY, OKLAHOMA  
May 31, 2012**

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Rural Water, Sewer, Gas and Solid Waste Management  
District No. 7, Grady County  
Ninnekah, Oklahoma 73067

### Board Members:

We have audited the accompanying modified cash basis financial statements of the business-type activities of the **Rural Water, Sewer, Gas and Solid Waste Management District No. 7**, Grady County, Oklahoma, as of and for the year ended May 31, 2012, 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. Our responsibility is to express opinions on these financial statements based on our audit.

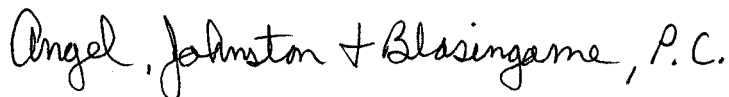
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan 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 opinions.

As discussed in Note 1, the District prepares its financial statements on the modified cash basis, 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 business-type activities of the District as of May 31, 2012, and the respective changes in financial position-modified cash basis and cash flows, thereof for the year then ended in conformity with the modified cash basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued a report dated July 2, 2012 on our consideration of the District's internal control over financial reporting and 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.

Our audit was conducted for the purpose of forming opinions on the financial statements on the financial statements that collectively comprise the District's financial statements as a whole. The accompanying comparative statement of net assets – modified cash basis and comparative statement of revenues, expenses, and changes in net assets – modified cash basis (pages F-1 and F-2) are presented for purposes of additional analysis and are not a required part of the basic financial statements. The comparative statement of net assets – modified cash basis and comparative statement of revenues, expenses, and changes in net assets – modified cash basis are the responsibility of management and were derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. In our opinion, and based on our audit, except for the effects on the supplementary information of comprehensive basis of accounting other than accounting principles generally accepted in the United States of America as discussed in the third paragraph above, the information is fairly stated in all material respects in relation to the basic financial statements.



Angel, Johnston & Blasingame, P.C.  
Certified Public Accountants

Chickasha, Oklahoma  
July 2, 2012

**RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT  
DISTRICT NO. 7, GRADY COUNTY, OKLAHOMA  
Statement of Net Assets - Modified Cash Basis  
Enterprise Funds  
For the Year Ended May 31, 2012**

<b><u>ASSETS</u></b>	<b><u>May 31, 2012</u></b>
<b>Current Assets</b>	
<i>Cash and Cash Equivalents</i>	
Cash on Hand	\$ 43
Checking Account	37,157
Savings Account	1,639
Project Fund	5,989
Debt Service Fund - Restricted	10,110
Reserve Fund - Restricted	80,518
<i>Total Cash and Cash Equivalents</i>	<u>135,456</u>
 <i>Total Current Assets</i>	 135,456
<b>Non Current Assets</b>	
Capital Assets - Net of Accumulated Depreciation	2,583,890
<i>Total Non Current Assets</i>	<u>2,583,890</u>
 <i>Total Assets</i>	 <u>2,719,346</u>
 <b><u>LIABILITIES</u></b>	
<b>Current Liabilities</b>	
Operating Note Payable - FNB	50,100
Current Portion Long Term Debt	55,500
<i>Total Current Liabilities</i>	<u>105,600</u>
<b>Non Current Liabilities</b>	
Note Payable - OWRB (net of current portion)	404,500
<i>Total Liabilities</i>	<u>510,100</u>
 <b><u>NET ASSETS</u></b>	
Invested in Capital Assets, Net of Related Debt	2,073,790
Restricted for Debt Service	90,628
Unrestricted	44,828
<i>Total Net Assets</i>	<u><u>\$ 2,209,246</u></u>

*The accompanying notes are an integral part of the financial statements.*

**RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT  
DISTRICT NO. 7, GRADY COUNTY, OKLAHOMA  
Statement of Revenues, Expenses, and Changes in Net Assets  
Modified Cash Basis - Enterprise Funds  
For the Year Ended May 31, 2012**

	<u>May 31, 2012</u>
<b>Operating Revenue</b>	
Water Sales	\$ 564,511
Sewer Sales	10,366
Late Charges	10,569
Unit Fees & Assessments	34,622
Miscellaneous	27,169
Rental	4,537
<i>Total Operating Revenue</i>	<u>651,774</u>
 <b>Operating Expenses</b>	
Salaries & Benefits	145,753
Maintenance & Operations	146,774
Office Expense	19,871
Water Wells Expense	103,004
Insurance & Professional Expense	42,156
Returned Checks	1,011
<i>Total Operating Expenses</i>	<u>458,569</u>
 <i>Operating Income before Depreciation</i>	193,205
 Depreciation Expense	92,112
<i>Operating Income (Loss)</i>	<u>101,093</u>
 <b>Non Operating Revenues (Expense)</b>	
Interest Earned-net of fees	83
Interest on Loan	(6,854)
<i>Total Non Operating Revenues (Expenses)</i>	<u>(6,771)</u>
 <i>Net Income (Loss)</i>	94,322
 <i>Net Assets - Beginning of Year</i>	2,114,924
<i>Net Assets - End of Year</i>	<u>\$ 2,209,246</u>

*The accompanying notes are an integral part of the financial statements.*

**RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT  
DISTRICT NO. 7, GRADY COUNTY, OKLAHOMA  
Statement of Cash Flows - Modified Cash Basis  
Enterprise Funds  
For the Year Ended May 31, 2012**

	<u><b>May 31, 2012</b></u>
<b>Cash flows from operating activities</b>	
Cash received from customers	\$ 651,773
Cash paid to employees	(145,753)
Cash paid to suppliers	<u>(312,815)</u>
<i>Net cash provided (used) by operating activities</i>	<u>193,205</u>
 <b>Cash flows from capital and related financing activities</b>	
Proceeds from operating note	50,100
Interest Expense	(6,854)
Purchase of capital assets	(309,655)
Principal paid on capital debt	<u>(52,500)</u>
<i>Net cash provided (used) for capital and related financing activities</i>	<u>(318,909)</u>
 <b>Cash flows from investing activities</b>	
Interest Income-net of fees	<u>83</u>
<i>Net cash provided (used) by investing activities</i>	<u>83</u>
 <i>Net increase (decrease) in cash and cash equivalents</i>	(125,621)
<i>Cash and cash equivalents at beginning of year</i>	<u>261,077</u>
<i>Cash and cash equivalents at end of year</i>	<u><u>\$ 135,456</u></u>
 <b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</b>	
Operating income (loss)	\$ 101,093
Adjustment to reconcile operating income to net cash provided	-
Depreciation expenses	<u>92,112</u>
<i>Net cash provided (used) by operating activities</i>	<u><u>\$ 193,205</u></u>

*The accompanying notes are an integral part of the financial statements.*

**RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT**  
**DISTRICT NO.7, GRADY COUNTY, OKLAHOMA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
May 31, 2012

**Note 1 – Summary of Significant Accounting Policies**

The District complies with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units with a change for the modified cash basis. Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent that they are applicable, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this note.

**1 A. Financial Reporting Entity**

Grady County Rural Water, Sewer, Gas and Solid Waste Management District No. 7 (The District) was created in 1992 as a quasi-governmental unit under Oklahoma State Statue O.S. 82. The District is a body politic and corporate and an agency and legally constituted authority of the State of Oklahoma for the purpose of developing and providing an adequate rural water supply. Prior to 1992, it was accounted for as a non-profit corporation under Section 501(c)(3) of the Internal Revenue Code. The District provides water and limited sewer services to patrons within its district boundaries. A 5-person board duly elected by its members governs the District.

The District is under limited supervisory control of the Grady County Commissioners. After considering the lack of financial interdependency and the lack of exertion of significant influence over the District's operational matters, it was determined that the District is not a component unit of the Grady County governmental unit.

**1 B. Basis of Presentation**

Government Wide Financial Statements

The Statement of Net Assets and Statement of Revenues, Expenses, and Changes in Net Assets 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. All the activities of the District are business-type activities. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.



**RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT**  
**DISTRICT NO.7, GRADY COUNTY, OKLAHOMA**  
NOTES TO THE FINANCIAL STATEMENTS  
May 31, 2012

**Note 1 – Summary of Significant Accounting Policies, (continued)**

**1 B. Basis of Presentation (continued)**

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, which are comprised of each fund's assets, liabilities, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements. The funds of the financial reporting entity are described below:

**Proprietary Fund Types**

- 1. Enterprise Fund** – These funds are established to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. There is one fund within this fund type:

**1 C. Basis of Accounting and Measurement Focus**

Measurement focus refers to how transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus applied.

In the financial statement, the business-type activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting, as defined below:

- a. The business-type activity 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, financial or nonfinancial) associated with their activities are reported. Proprietary fund equity is classified as net assets.
- b. The financial statements in business-type activities are presented using a modified cash basis of accounting. This basis generally recognizes assets, liabilities, net assets/fund equity, revenues, and expenditures/expenses when they result from cash transactions with a provision for depreciation statements. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

**RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT**  
**DISTRICT NO.7, GRADY COUNTY, OKLAHOMA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
May 31, 2012

**Note 1 – Summary of Significant Accounting Policies, (continued)**

**1 C. Basis of Accounting and Measurement Focus (continued)**

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities except as noted above) are not recorded in these financial statements.

If the District utilized the basis of accounting recognized as generally accepted, the financial statements would use the accrual basis of accounting.

**1 D. Assets, Liabilities and Equity**

Cash & Cash Equivalents - For the purposes of the statement of cash flows, the District considers all cash on hand, demand deposits, interest bearing checking accounts, time deposit accounts and highly liquid investments, with an original maturity of three months or less when purchased, to be cash and cash equivalents.

Restricted Assets – Restricted assets include assets that are legally restricted as to their use. The primary restricted assets are related restricted for debt service.

Capital Assets - The cost of capital assets has been accumulated from audit reports since the inception. The assets are recorded at cost and are depreciated over the estimated useful lives using the straight-line depreciation method. The District policy is to capitalize assets of \$1,000 or more. The range of estimated useful lives by type of asset is as follows:

Building and Water System	40 years
Office Equipment	5 years
Other Equipment and Vehicles	5 to 15 years

Equity Classifications – In the government-wide and proprietary fund financial statements, equity is classified as net assets and displayed in three components:

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DISTRICT NO.7, GRADY COUNTY, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENTS  
May 31, 2012**

**Note 1 – Summary of Significant Accounting Policies, (continued)**

**1 D. Assets, Liabilities and Equity, (continued)**

- a. *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 attributed to the acquisition, construction, or improvements of those assets.
- b. *Restricted net assets* – Consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
- c. *Unrestricted net assets* – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

It is the District’s policy to first use restricted net assets prior to the use of unrestricted net assets when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Operating and Non-Operating Revenues – Operating revenues are considered those whose cash flows are related to operating activities, while revenue related to financing, capital and investing activities are reported as non-operating.

Expenditures/Expenses – Expenditures/expenses are reported by object or activity.

**1 E. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT  
DISTRICT NO.7, GRADY COUNTY, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENTS  
May 31, 2012**

**Note 1 – Summary of Significant Accounting Policies, (continued)**

**1 F. Differences from GAAP**

Management Discussion and Analysis

The District has not presented the Management's Discussion and Analysis which the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be a part of the basic financial statements.

**Note 2 – Detailed Notes on Transaction Classes/Accounts**

**2 A. Deposits, Investments, and Collateral**

*Deposits and Investments* - The District's investment policy is governed by the board of trustees and any restrictions in the trust indenture.

*Custodial Credit Risk - Deposits* – Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a written deposit policy for custodial credit risk, but *Oklahoma Statutes* requires collateral for all uninsured deposits of public trust funds in financial institutions. As of May 31, 2012, the District's bank balances of \$38,796 were not exposed to custodial credit risk. The funds held by the bank's trust department are invested in U.S. Government obligations total \$96,617.

**2 B. Restricted Assets**

The amounts reported as restricted assets on the Statement of Net Assets are comprised of cash and investments held for debt service. The restricted assets as of May 31, 2012 were as follows:

<u>Type of Restricted Assets</u>	<u>Current Cash and Cash Equivalents</u>	<u>Current Investments</u>	<u>Total</u>
Restricted for Debt Service	\$ 0	\$ 90,628	\$ 90,628

**RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT**  
**DISTRICT NO.7, GRADY COUNTY, OKLAHOMA**  
NOTES TO THE FINANCIAL STATEMENTS  
May 31, 2012

**Note 2 – Detailed Notes on Transaction Classes/Accounts, (continued)**

**2 C. Capital Assets Activity**

The following is a summary of capital assets and accumulated depreciation:

	<u>Balance</u> <u>5/31/11</u>		<u>Additions</u>		<u>Disposals</u>		<u>Balance</u> <u>5/31/12</u>
<b>Business Type Activities:</b>							
Non-depreciable assets:							
Land	\$ 22,185	\$	200,672	\$	-	\$	222,857
Construction in progress	<u>41,585</u>		<u>101,523</u>		<u>49,908</u>		<u>93,200</u>
Total non-depreciable assets	<u>63,770</u>		<u>302,195</u>		<u>49,908</u>		<u>316,057</u>
Depreciable assets:							
Buildings	191,540		-		-		191,540
Vehicles	66,660		-		-		66,660
Office & Other Equipment	32,754		-		-		32,754
Water Lines/Improvements	<u>3,594,725</u>		<u>57,368</u>		<u>-</u>		<u>3,652,093</u>
Total depreciable assets	<u>3,885,679</u>		<u>57,368</u>		<u>-</u>		<u>3,943,047</u>
Less accumulated depreciation:							
Buildings	16,757		4,763		-		21,520
Vehicles	37,263		7,537		-		44,800
Office & Other Equipment	31,284		220		-		31,504
Water Lines/Improvements	<u>1,497,797</u>		<u>79,591</u>		<u>-</u>		<u>1,577,388</u>
Total accumulated depreciation	<u>1,583,101</u>		<u>92,111</u>		<u>-</u>		<u>1,675,212</u>
Net depreciable assets	<u>2,302,578</u>		<u>(34,743)</u>		<u>-</u>		<u>2,267,835</u>
Net business type activities capital assets	<u>\$2,366,348</u>	\$	<u>267,452</u>	\$	<u>49,908</u>	\$	<u>2,583,892</u>

Depreciation expense for the year was \$92,111 and was all charged to the enterprise fund.

**2 D. Long-Term Debt**

On May 27, 2004 the District entered into a loan with the Oklahoma Water Resources Board (OWRB) in the amount of \$805,000.00 for a period of approximately 15 years bearing an initial interest rate of 1.780 percent per annum. The interest rate is variable. The current variable rate is 1.38 percent per annum, with a recalculation quarterly. The estimated future interest as listed in the table below is calculated using an average interest rate of 4.3 percent per annum. The District's water revenue and the assets of the District back the loan.

**RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT**  
**DISTRICT NO.7, GRADY COUNTY, OKLAHOMA**  
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May 31, 2012

**Note 2 – Detailed Notes on Transaction Classes/Accounts, (continued)**

**2 D. Long-Term Debt, (continued)**

The changes in long-term debt are as follows:

	<u>Balance</u> <u>5-31-11</u>	<u>Loan</u> <u>Proceeds</u>	<u>Interest</u> <u>Paid</u>	<u>Principal</u> <u>Paid</u>	<u>Balance</u> <u>5-31-12</u>
OWRB	512,500	0	6,854	52,500	460,000

<u>Fiscal Year</u>	<u>OWRB</u> <u>Principal</u> <u>Payments</u>	<u>Estimated</u> <u>Interest</u>
2012-2013	55,500	20,083
2013-2014	58,600	17,552
2014-2015	61,900	14,789
2015-2016	65,300	12,055
2016-2017	69,000	9,076
2017-2019	149,700	8,537

**2 E. Operating Debt/Line of Credit**

On April 19, 2012 the District entered into a loan agreement with the First National Bank & Trust Company (FNB) providing for a line of credit in the amount of \$100,100.00 for a period of one year bearing an initial interest rate of 5.50 percent per annum. As of May 31, 2012 the District has utilized \$50,100 of these funds. The interest rate is variable. The current variable rate is 5.50 percent per annum. The estimated future interest as listed in the table below is calculated using an average interest rate of 5.50 percent per annum. The District's water revenue and the assets of the District back the loan.

The changes in operating debt are as follows:

	<u>Balance</u> <u>5-31-11</u>	<u>Loan</u> <u>Proceeds</u>	<u>Interest</u> <u>Paid</u>	<u>Principal</u> <u>Paid</u>	<u>Balance</u> <u>5-31-12</u>
FNB	0	50,100	0	0	50,100

<u>Fiscal Year</u>	<u>FNB</u> <u>Principal</u> <u>Payments</u>	<u>Estimated</u> <u>Interest</u>
2012-2013	50,100	2,776

**RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT  
DISTRICT NO.7, GRADY COUNTY, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENTS  
May 31, 2012**

**Note 3 – Other Notes**

**3 A. Meter Deposits**

Prior to 1980 the District collected refundable meter deposits from the water line users. Since that time it has been policy for new members to pay a non-refundable membership and installation fee. Because the corporation's records disclosing meter deposits have been subsequently destroyed, there is no documentation as to who still has a refundable meter deposit outstanding. The corporation feels this amount is not material and that they would have sufficient funds available to refund any outstanding meter deposits.

**3 B. Vacation, Sick leave and Compensated Absences**

Compensated vacation and sick leave absences are recorded as expenditures when they are paid. Any unused sick leave and/or vacation as of December is paid to the employee the following January at the employees normal rate and thus does not vest or accumulate.

**3 C. Employee Pension Plan**

The retirement program is a 401(k) deferred compensation plan. The District is contributing 8% of the three employees' compensation. Additional voluntary employee contributions are allowed. The plan allows contributions of 15% up to a maximum of \$22,500 per person per year. The contributions are immediately 100% vested. The retirement contributions for the years ending May 31 are as follows:

2012	\$8,733
2011	\$7,480
2010	\$8,730
2009	\$8,049
2008	\$7,493
2007	\$5,887
2006	\$5,712

**3 D. Water Rights Lease**

The District leases water rights from area residents to provide the water service to its customers. The District currently is party to seven separate leases for such water rights:

- 1) Moore lease (\$200/month) – started in 1983 for a 40 year term with renegotiations every three years.
- 2) Bailey lease (\$150/month) – started in 1981 with rights for 40 years but renewable month to month.

**RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT**  
**DISTRICT NO.7, GRADY COUNTY, OKLAHOMA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
May 31, 2012

**Note 3 – Other Notes, (continued)**

**3 D. Water Rights Lease, (continued)**

- 3) Adams lease (\$600/month) – started in 1981 with no definite term and renewable month to month.
- 4) Dahl lease (\$200/month) – started in 1990 for a 40 year term with renegotiations every three years.
- 5) Teel lease (\$300/month) – started in 1995 for a 40 year term with renegotiations every five years.
- 6) Rust lease (\$400/month) – started in 1998 for a 40 year term with renegotiations every five years.
- 7) Sumner lease (\$300/month) – started in 1999 for a 40 year term with a set payment scheduled for 5 years.

**3 E. Commitments and Contingencies**

*Contingencies – Grant Program Involvement* - In the normal course of operations, the District may participate in various federal and state grant programs from year to year. Amounts received or receivable from grantor agencies are often subject to audit and adjustment by the grantor agency. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable fund. The amount, if any, of expenditures which may be disallowed by the grantor agency cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.



**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  
Rural Water, Sewer, Gas and Solid Waste Management  
District No. 7, Grady County  
Ninnekah, Oklahoma 73067

We have audited the accompanying modified cash basis financial statements of the business-type activities of the Rural Water, Sewer, Gas and Solid Waste Management District No. 7, Grady County, as of and for the year ended May 31, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated July 2, 2012. The report was a special report on the District's use of a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. 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 Rural Water, Sewer, Gas and Solid Waste Management District No. 7, Grady County, Oklahoma, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Rural Water, Sewer, Gas and Solid Waste Management District No. 7, Grady County'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 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.

Our consideration of the 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, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider

to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses. 12-01.

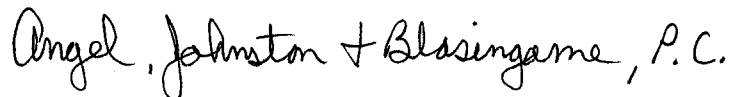
A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting: 12-02.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Rural Water, Sewer, Gas and Solid Waste Management District No. 7, Grady County'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 results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Rural Water District No. 7'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 solely for the information and use of the board, management, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Angel, Johnston & Blasingame, P.C.  
Certified Public Accountants

Chickasha, Oklahoma  
July 2, 2012

**Rural Water, Sewer, Gas and Solid Waste Management  
District No. 7, Grady County  
Schedule of Findings and Responses  
For the Year Ended May 31, 2012**

- 12-01 *Criteria* – The segregation of duties and responsibilities between different individuals for custody of assets, recordkeeping for those assets, and reconciliation of those asset accounts is an important control activity needed to adequately protect the entity's assets and ensure accurate financial reporting.

*Condition* – Presently the same individual performs all accounting functions; receives utility service related cash payments and is responsible for service billing and adjustment, also balances the daily cash drawer, posts payments to customer accounts, makes bank deposits, writes checks and reconciles the monthly bank statements and prepares monthly financial summaries.

*Cause* – The entity's limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost-effective manner.

*Effect or Potential Effect* – Without sufficient segregation of duties, the risk significantly increases that errors and fraud related to the accounting functions, including misappropriation of assets, could occur and not be detected within a timely basis.

*Recommendation* – While it may not be cost effective to hire the additional administrative staff that would be necessary in order to adequately segregate the responsibilities, the Board should consider a formal evaluation of their risks associated with this lack of segregation of duties. In response to the identified risks, consideration should be given to identifying and implementing controls that could help mitigate the risks associated with lack of segregation of duties.

*Management response* – Management agrees.

- 12-02 *Criteria* – Daily time sheets should be approved by a supervisor to indicate the timesheets are accurate and true.

*Condition* – Part-time employees must keep timesheets, however, those reviewed for Janet's relief were not approved by a supervising authority.

*Cause* – Lack of internal control surrounding employee hour documentation.

*Effect or Potential Effect* – An increased risk of fraud or misappropriation of payroll expenses due to lack of supervision.

*Recommendation* – We recommend that the timesheets should contain detailed start and stop times as well as be signed by both the employee and supervisor.

*Management response* – Management agrees.

**Rural Water, Sewer, Gas and Solid Waste Management  
District No. 7, Grady County  
Disposition of Prior Year Audit Findings  
For the Year Ended May 31, 2012**

11-01 *Finding* – Presently the same individual performs all accounting functions; receives utility service related cash payments and is responsible for service billing and adjustment, also balances the daily cash drawer, posts payments to customer accounts, makes bank deposits, writes checks and reconciles the monthly bank statements and prepares monthly financial summaries. Lack of Segregation of duties

*Recommendation* – While it may not be cost effective to hire the additional administrative staff that would be necessary in order to adequately segregate the responsibilities, the Board should consider a formal evaluation of their risks associated with this lack of segregation of duties. In response to the identified risks, consideration should be given to identifying and implementing controls that could help mitigate the risks associated with lack of segregation of duties.

*Disposition* – This continues to be a finding.

## *Supplemental Information*

**RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT  
DISTRICT NO. 7, GRADY COUNTY, OKLAHOMA  
Comparative Statement of Net Assets - Modified Cash Basis  
Enterprise Funds  
For the Years Ended May 31, 2012, 2011 and 2010**

<b><u>ASSETS</u></b>	<b><u>May 31, 2012</u></b>	<b><u>May 31, 2011</u></b>	<b><u>May 31, 2010</u></b>
<b>Current Assets</b>			
<i>Cash and Cash Equivalents</i>			
Cash on Hand	\$ 43	\$ 17	\$ 2
Checking Account	37,157	137,693	205,288
Savings Account	1,639	12,999	9,346
Project Fund	5,989	5,987	5,983
Debt Service Fund - Restricted	10,110	9,873	9,656
Reserve Fund - Restricted	80,518	94,508	94,446
<i>Total Cash and Cash Equivalents</i>	<u>135,456</u>	<u>261,077</u>	<u>324,721</u>
<i>Total Current Assets</i>	135,456	261,077	324,721
<b>Non Current Assets</b>			
Capital Assets - Net of Accumulated Depreciation	<u>2,583,890</u>	<u>2,366,347</u>	<u>2,246,866</u>
<i>Total Non Current Assets</i>	2,583,890	2,366,347	2,246,866
<i>Total Assets</i>	<u>2,719,346</u>	<u>2,627,424</u>	<u>2,571,587</u>
 <b><u>LIABILITIES</u></b>			
<b>Current Liabilities</b>			
Operating Note Payable - FNB	50,100	-	-
Current Portion Long Term Debt	<u>55,500</u>	<u>52,500</u>	<u>49,800</u>
<i>Total Current Liabilities</i>	105,600	52,500	49,800
<b>Non Current Liabilities</b>			
Note Payable - OWRB (net of current portion)	<u>404,500</u>	<u>460,000</u>	<u>512,500</u>
<i>Total Liabilities</i>	510,100	512,500	562,300
 <b><u>NET ASSETS</u></b>			
Invested in Capital Assets, Net of Related Debt	2,073,790	1,853,847	1,684,566
Restricted for Debt Service	90,628	110,368	110,085
Unrestricted	44,828	150,709	214,636
<i>Total Net Assets</i>	<u>\$ 2,209,246</u>	<u>\$ 2,114,924</u>	<u>\$ 2,009,287</u>

*The accompanying notes are an integral part of the financial statements.*

**RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT**  
**DISTRICT NO. 7, GRADY COUNTY, OKLAHOMA**  
**Comparative Statement of Revenues, Expenses, and Changes in Net Assets**  
**Modified Cash Basis - Enterprise Funds**  
**For the Years Ended May 31, 2012, 2011 and 2010**

	<u>May 31, 2012</u>	<u>May 31, 2011</u>	<u>May 31, 2010</u>
<b>Operating Revenue</b>			
Water Sales	\$ 564,511	\$ 529,608	\$ 487,439
Sewer Sales	10,366	9,800	9,800
Late Charges	10,569	10,568	10,403
Unit Fees & Assessments	34,622	16,917	39,728
Miscellaneous	27,169	14,481	15,327
Rental	4,537	4,205	3,540
<i>Total Operating Revenue</i>	<u>651,774</u>	<u>585,579</u>	<u>566,237</u>
<b>Operating Expenses</b>			
Salaries & Benefits	145,753	131,298	125,210
Maintenance & Operations	146,774	99,209	97,154
Office Expense	19,871	21,618	15,868
Water Wells Expense	103,004	88,066	88,545
Disaster Expense	-	-	42,510
Insurance & Professional Expense	42,156	44,060	38,847
Returned Checks	1,011	1,086	1,292
<i>Total Operating Expenses</i>	<u>458,569</u>	<u>385,337</u>	<u>409,426</u>
<i>Operating Income before Depreciation</i>	193,205	200,242	156,811
Depreciation Expense	92,112	88,171	83,745
<i>Operating Income (Loss)</i>	<u>101,093</u>	<u>112,071</u>	<u>73,066</u>
<b>Non Operating Revenues (Expense)</b>			
Interest Earned-net of fees	83	122	(34)
Interest on Loan	(6,854)	(8,157)	(11,996)
<i>Net Income before Grants &amp; Contributions</i>	<u>94,322</u>	<u>104,036</u>	<u>61,036</u>
Grants	-	1,601	32,626
Contributions	-	-	6,191
<i>Changes in Net Assets</i>	<u>94,322</u>	<u>105,637</u>	<u>99,853</u>
<i>Net Assets - Beginning of Year</i>	2,114,924	2,009,287	1,909,434
<i>Net Assets - End of Year</i>	<u>\$ 2,209,246</u>	<u>\$ 2,114,924</u>	<u>\$ 2,009,287</u>

*The accompanying notes are an integral part of the financial statements.*