AUDIT REPORT
RURAL WATER DISTRICT NO. 7
OKMULGEE COUNTY, OKLAHOMA
OKMULGEE, OKLAHOMA
DECEMBER 31, 2011

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INDEPENDENT AUDITORS' REPORT

To The Honorable Members of the Board of Directors
Rural Water District No. 7, Okmulgee County, Oklahoma
Okmulgee, Oklahoma

I have audited the accompanying financial statements of the business-type activities of Rural Water District No. 7, Okmulgee County, Oklahoma as of and for the year ended December 31, 2011, which collectively comprise Rural Water District No. 7, Okmulgee County, Oklahoma's basic financial statements. These financial statements are the responsibility of Rural Water District No.7, Okmulgee County, Oklahoma'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 management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Rural Water District No. 7, Okmulgee County, Oklahoma as of December 31, 2011, and the respective changes in financial position and cash flows where appropriate, thereof, in conformity with accounting principles generally accepted in the United States of America.

Rural Water District No. 7, Okmulgee County, Oklahoma has not presented Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with *Government Auditing Standards*, I have also issued my report dated March 13, 2012, on my consideration of Rural Water District No. 7, Okmulgee County, Oklahoma's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, 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 my audit.

Ralph Osborn

Ralph Osborn
Certified Public Accountant
Bristow, Oklahoma
March 13, 2012

RURAL WATER DISTRICT NO.7
OKMULGEE COUNTY, OKLAHOMA
OKMULGEE, OKLAHOMA
STATEMENT OF NET ASSETS
DECEMBER 31, 2011

ASSETS	
Current assets:	
Cash and cash equivalents	$ 215,688
Accounts receivable	43,763
Prepaid expense	6,239
Debt service reserve	58,264
Total current assets	323,954
Non-current assets	
Capital assets:	
Land	8,100
Other capital assets, net of accumulated depreciation	1,448,068
Total non-current assets	1,456,168
Total assets	1,780,122
LIABILITIES	
Current liabilities:	
Accounts payable	41,773
Accrued interest	469
Renter deposit	1,500
Notes payable, current	30,960
Total current liabilities	74,702
Non-current liabilities:	
Notes payable, non-current	516,485
Total non-current liabilities	516,485
Total liabilities	591,187
NET ASSETS	
Nonspendable	908,723
Restricted for debt service	58,264
Unassigned	221,948
Net assets of business-type activities	$ 1,188,935

See accompanying notes to financial statements.

RURAL WATER DISTRICT NO. 7
OKMULGEE COUNTY, OKLAHOMA
OKMULGEE, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2011

OPERATING REVENUES	
Charges for services:	
Water sales	$ 525,500
Membership fees	36,925
Total operating revenues	562,425
OPERATING EXPENSES	
Water purchased	220,999
Salaries/wages and taxes	125,825
Contract labor	15,790
Group health insurance	11,417
Insurance	17,420
Licences and permits	92
Mileage/meals/training	610
Office	17,555
Other expense	1,022
Professional services	1,700
Lab fees	572
Supplies	17,050
Repairs and maintenance	2,926
Telephone	3,296
Truck maintenance	14,759
Utilities	10,578
Depreciation	143,179
Total operating expenses	604,790
Operating income (loss)	(42,365)
NON-OPERATING REVENUE (EXPENSES	
Interest earnings	2,965
Interest on notes payable and fees	(28,092)
Total non-operating revenue (expenses)	(25,127)
Change in net assets	(67,492)
Total net assets, beginning	1,256,427
Total net assets, ending	$ 1,188,935

See accompanying notes to financial statements.

RURAL WATER DISTRICT NO.7
OKMULGEE COUNTY, OKLAHOMA
OKMULGEE, OKLAHOMA
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2011

Cash flows from operating activities	
Cash received from customers	$ 560,689
Cash payments for employees and benefits	(125,825)
Cash payments to suppliers for goods and services	(314,945)
Net cash provided (used) by operating activities	119,919
Cash flows from capital and related financing activities	
Acquisition of fixed assets	(169,934)
Interest paid on notes payable and fiscal fees	(28,092)
Principal paid on notes payable	(29,426)
Net cash used for capital and related financing activities	(227,452)
Cash flows from investing activities	
Investment earnings	2,965
Net cash used by investing activities	2,965
Net increase in cash and cash equivalents	(104,568)
Cash and cash equivalents, beginning	378,520
Cash and cash equivalents, ending	$ 273,952
Reconciliation of operating income (loss) to net cash provided by (used) by operating activities	
Operating income (loss)	$ (42,365)
Adjustments to reconcile operating income to net cash used by operating activities:	
Depreciation	143,179
Changes in assets and liabilities:	
Increase in accrued receivables	(1,736)
Decrease in prepaid expenses	1,892
Increase in accounts payable	19,031
Decrease in accrued interest	(82)
Net cash provided by operating activities	$ 119,919

See accompanying notes to financial statements.

RURAL WATER DISTRICT NO. 7
OKMULGEE COUNTY, OKLAHOMA
OKMULGEE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Rural Water District Number 7 (the "District") was created by the Okmulgee County, Oklahoma Board of County Commissioners under the provisions of Title 82 Oklahoma statutes 1961, Sections 1301 to 1321. The District is managed by a seven member Board of Directors elected by the members of the District. Terms of the Directors are staggered to expire in different years. Directors are elected at the annual meeting of the membership of the District. Membership in the District is acquired by paying a membership fee and receiving services from the District. The District is exempt from federal and state taxation.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of the District are prepared in accordance with generally accepted accounting principles (GAAP). The District's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The District's reporting entity does not apply FASB pronouncements or ABP opinions issued after November 30, 1989.

The financial statements report using the economic resources measurement focus and the accrual basis of accounting. Reimbursements are reported as reductions to expenses. Revenues are recorded when earned and expenses recorded when a liability is incurred, regardless of the timing of related cash flows.

Operating income reported in financial statements include revenues and expenses related to the primary, continuing operations of the District. Principal operating revenues are charges to customers for sales or services. Principal operating expenses are the cost of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

Investments

The District follows Governmental Accounting Standards Board (GASB) Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," which requires marketable securities to be carried at fair value. The District considers highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The investments reported in the financial statements consist of Certificates of Deposits.

Inventories and Prepaids

Inventories consist of expendable supplies held for consumption stated on a first-in, first-out basis. They are reported at cost which is recorded as an expenditure at the time individual inventory items are used.

Prepaids record payments to vendors that benefit future reporting periods and are also reported on the consumption basis.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets, Depreciation, and Amortization

The District's property, plant, and equipment, with useful lives of more than one year are stated at historical cost and comprehensively reported in the financial statements. Donated assets are stated at fair value on the date donated. The cost of normal maintenance and repairs that do not add to the assets value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are moved from the respective accounts, and the resulting gain or loss is recorded in operations.

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

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

Reserves and Designations

Reserves represent those portions of net assets not available for expenditure or legally segregated for a specific future use. Designated net assets represent tentative plans for future use of financial resources.

Use of Estimates

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

NOTE B - CASH AND INVESTMENTS

Custodial Credit Risk

Custodial credit risk is the risk that in the event of failure of counterparty, the District will not be able to recover the value of its deposits or investments. Deposits are exposed to custodial credit risk if they are uninsured and uncollateralized. Investment securities are exposed to custodial credit risk if they are uninsured, are not registered in the name of the District, and are held by counterparty or the counterparty's trust department but not in the name of the District. The District's policy requires that all deposits and investments in excess of amounts covered by federal deposit insurance be fully collateralized by the entity holding the deposits or investments. As of December 31, 2011, all of the Districts deposits and investments were either covered by federal deposit insurance or were fully collateralized.

Deposits

The District had deposits at financial institutions with a carrying amount of approximately $273,925 at December 31, 2011. The bank balance of the deposits at December 31, 2011 was approximately $273,010.

Credit Risk

Fixed-income securities are subject to credit risk. However, the District did not have fixed income securities at December 31, 2011.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Board of Directors monitor's the investment performance on an ongoing basis to limit the District's interest rate risk. As of December 31, 2011, the District's deposits consisted of demand deposits and certificates of deposit with a maturity of 12 months or less.

NOTE C - ACCOUNTS RECEIVABLE

The District records the total due on accounts owed for services unpaid at December 31. Any uncollectible amounts are written-off as they become uncollectible. Unpaid bills become a property lien.

NOTE D - DEBT SERVICE RESERVE

The District has $57,600 on deposit with a bank for use as a reverse for the United States Department of Agriculture, Rural Development loans. At December 31, 2011, the reserve had a balance of $58,264. This is an excess of $664 over what is required.

NOTE E - CAPITAL ASSETS

Changes in capital assets.

The following table provides a summary of changes in capital assets:

	CAPITAL ASSETS, DEPRECIATED			
	Buildings	Improvements Other Than Buildings	Furniture, Machinery, And Equipment	Totals
Balance, Dec. 31, 2009	$ 40,771	$ 3,668,996	$ 99,291	$ 3,809,058
Increases	-	164,389	5,545	169,934
Decreases	-	-	-	-
Balance, Dec. 31, 2011	40,771	3,833,385	104,836	3,978,992
Accumulated Depreciation				
Balance, Dec. 31, 2009	16,939	2,324,864	45,942	2,387,745
Increase	1,424	131,870	9,885	143,179
Decreases	-	-	-	-
Balance, Dec.31, 2011	18,363	2,456,734	55,827	2,530,924
Capital Assets, Net	$ 22,408	$ 1,376,651	$ 49,009	$ 1,448,068

	CAPITAL ASSETS, NOT DEPRECIATED
Land	
Balance Dec. 31, 2009	$ 8,100
Increase	-
Decrease	-
Balance Dec. 31, 2011	$ 8,100

NOTE F - NOTES PAYABLE

The District has incurred indebtedness for the expansion of system facilities. The following is a summary of note payable transactions for the year ended December 31, 2011.

	Payable at Jan. 1, 2011	Addition/ Retirements	Balance at Dec. 31, 2011
USDA, Rural Development	$ 492,096	$ (10,703)	$ 481,393
USDA, Rural Development	84,775	(18,723)	66,052
Total	$ 576,871	$ (29,426)	$ 547,445

NOTE F - NOTES PAYABLE (Continued)

A brief description of the outstanding notes payable at December 31, 2011 is set forth below:

Outstanding	Amount
USDA, Rural Development loan dated January 30, 1996, in the original loan amount of $600,000 interest rate of 5%, term of 40 years, monthly installment of $2,922 until January 2036	$ 481,393
USDA, Rural Development loan dated October 10, 1974, in the original loan amount of $380,000 interest rate of 5% term of 40 years, monthly installment of $1,878 until October 2014	66,052
Total	$ 547,445

The Rural Development loan agreements require the District maintain a loan reserve equal to the total annual payment on the loans or $57,600. At December 31, 2011, the reserve is fully funded.

Anticipated annual debt services requirements are as follow:

	Principal	Interest	Total
2012	$ 30,960	$ 26,640	$ 57,600
2013	32,544	25,056	57,600
2014	34,209	23,391	57,600
2015	16,799	22,021	38,820
2016	13,729	21,335	35,064
2017-2021	79,930	95,390	175,320
2022-2026	102,579	72,741	175,320
2027-2031	131,646	43,674	175,320
2032-2035	105,049	8,910	113,959
Total	$ 547,445	$ 339,158	$ 886,603

NOTE H - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District carries commercial insurance, including workers compensation, for risk of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

RURAL WATER DISTRICT NO. 7
OKMULGEE COUNTY, OKLAHOMA
OKMULGEE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE I - PENSION

The District does not provide pension coverage for employees.

NOTE J - COMPENSATED ABSENCES

The District allows full-time employees one week vacation after one year of employment and two weeks vacation for two or more years. Vacation must be used in the year after it is earned.

Full-time employees are allowed four hours per month personal time not to exceed forty-eight hours per year. Unused personal time may not accumulate from year to year.

The value of accumulated vacation and personal time at December 31, 2011 is not known, however, it is not believed to be material.

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
Rural Water District Number 7, Okmulgee County, Oklahoma
Okmulgee, Oklahoma

I have audited the financial statements of the business-type activities of Rural Water District Number 7, Okmulgee County, Okmulgee, Oklahoma as of and for the year ended December 31, 2011, and have issued my report thereon dated March 13, 2012 which did not include Management's Discussion and Analysis. 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 Rural Water District Number 7, Okmulgee County, Okmulgee, Oklahoma's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Rural Water District Number 7, Okmulgee County, Okmulgee, Oklahoma's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Rural Water District Number 7, Okmulgee County, Okmulgee, Oklahoma'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.

My 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. I did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rural Water District Number 7, Okmulgee County, Okmulgee, Oklahoma's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Sincerely,

Ralph Osborn

Ralph Osborn
Certified Public Accountant
Bristow, Oklahoma
March 13, 2012