

Seminole County Rural Water District No. 7
Seminole, Oklahoma

Financial Statements and
Reports of Independent Auditor

June 30, 2012

Audited by

SANDERS, BLEDSOE & HEWETT
CERTIFIED PUBLIC ACCOUNTANTS, LLP

Broken Arrow, Oklahoma

Seminole County Rural Water District No. 7
Seminole, Oklahoma

Board of Directors
June 30, 2012

Chairman

Morris Jackson

Vice-Chairman

David Bass

Secretary

John Seifried

Treasurer

Kenny Warden

Members

Cene' Marquis

vacant

vacant

Seminole County Rural Water District No. 7
Seminole, Oklahoma

Table of Contents
June 30, 2012

	<u>Page</u>
Board of Directors	<i>i</i>
Independent Auditor's Report	1
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	2
Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	4
Schedule of Audit Results	6
Combined Financial Statements:	
Statement of Net Assets.....	7
Statement of Revenues, Expenses and Changes in Net Assets	8
Statement of Cash Flows	9
Notes to the Financial Statements	10
Other Supplementary Information:	
Balance Sheet	14
Statement of Income and Retained Earnings.....	15



SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

Independent Auditor's Report

Board of Directors
Seminole County Rural Water District No. 7
Seminole, Oklahoma

We have audited the accompanying financial statements of the business-type activities of the Seminole County Rural Water District No. 7 (the District), Seminole, Oklahoma, as of and for the year ended June 30, 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 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. 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 respective financial position of the business-type activities of the District as of June 30, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management has elected to omit the Management Discussion and Analysis, which is considered required supplementary information that is normally subjected to auditing procedures. Due to this omission, the usefulness and accessibility of the financial statements are limited to the District's management. The omission of this information does not affect the opinion expressed on the financial statements as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 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. 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 our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining and individual fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole on the basis of accounting described in Note 1.

Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

September 24, 2012



SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

**Report on Internal Control Over Financial Reporting and on Compliance and Other
Matters Based on an Audit of Financial Standards Performed in Accordance with
Government Auditing Standards**

Board of Directors
Seminole County Rural Water District No. 7
Seminole, Oklahoma

We have audited the combined financial statements of Seminole County Rural Water District No. 7 (the District), Seminole, Oklahoma, as of and for the year ended June 30, 2012, which, except for the omission of the Management Discussion and Analysis, collectively comprise the District's basic financial statements and have issued our report thereon dated September 24, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our 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.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepting accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in a more than a remote likelihood that a material misstatement of the financial statements will not be presented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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

A handwritten signature in black ink that reads "Sanders, Bledsoe & Hewett". The signature is written in a cursive, flowing style.

Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

September 24, 2012



SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133

Board of Directors
Seminole County Rural Water District No. 7
Seminole, Oklahoma

Compliance

We have audited the compliance of Seminole County Rural Water District No. 7 (the District), Seminole, Oklahoma, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2012. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standard generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2012. The results of our auditing procedures disclosed no instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major

federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be detected or prevented by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

A handwritten signature in black ink that reads "Sanders, Bledsoe & Hewett". The signature is written in a cursive, flowing style.

Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

September 24, 2012

Seminole County Rural Water District No. 7
Seminole, Oklahoma
Schedule of Audit Results
June 30, 2012

Section 1 – Summary of Auditor’s Results

1. An unqualified opinion report was issued on the financial statements.
2. The audit disclosed no reportable conditions in the internal controls.
3. The audit disclosed no instances of noncompliance.
4. The audit disclosed no reportable conditions in the internal controls over major programs.
5. An unqualified opinion was issued on the compliance of major programs.
6. The audit disclosed no audit findings which are required to be reported under OMB Circular A-133 § 510(a).
7. The programs determined to be major is the Rural Development \$1,314,000 long-term note and expansion project, and the Rural Development \$1,057,560 grant for the same purpose.
8. The dollar threshold used to determine between Type A and Type B programs was \$300,000.
9. The district was determined not to be a low-risk auditee.

Section 2 – Findings Relating to the Financial Statements Required to be Reported in Accordance with GAGAS:

None

Section 3 – Findings and Questioned Costs for Federal Awards:

None

SEMINOLE COUNTY RURAL WATER DISTRICT NO. 7
Statement of Net Assets
June 30, 2012

ASSETS

Current assets:	
Cash in bank	\$ 237,638
Capital Assets:	
Water system and improvements	2,237,028
Other:	
Debt Issue Costs	<u>22,466</u>
Total Assets	<u>2,497,132</u>

LIABILITIES

Noncurrent liabilities:	
Reserve for contributed capital	63,800
Notes payable	<u>1,313,871</u>
Total Liabilities	<u>1,377,671</u>

NET ASSETS

Invested in capital assets, net of related debt	923,157
Unrestricted	<u>196,304</u>
Total Net Assets	<u><u>\$ 1,119,461</u></u>

The accompanying notes to the financial statements are an integral part of this statement

SEMINOLE COUNTY RURAL WATER DISTRICT NO. 7
Statement of Activities
For The Year Ended June 30, 2012

Operating Revenues:

Total revenues from operations	\$ 0
--------------------------------	------

Operating Expenses:

Insurance	3,091
Utilities	3,095
Repairs and maintenance	31
Office expenses	81
Dues and fees	75
Postage fees	106
Professional fees	850
Total expenses from operations	7,329

Operating Income (Loss)	(7,329)
-------------------------	---------

Non-Operating Revenues (Expenses):

Grant proceeds	836,046
Interest income	7
Interest paid on debt	(26,202)
Total non-operating revenues (expenses)	809,851

Change in Net Assets	802,522
----------------------	---------

Total Net Assets, beginning of period	316,939
---------------------------------------	---------

Total Net Assets, end of period	\$ 1,119,461
---------------------------------	--------------

The accompanying notes to the financial statements are an integral part of this statement

SEMINOLE COUNTY RURAL WATER DISTRICT NO. 7
Statement of Cash Flows
For Years Ended June 30, 2012

Cash Flows from Operating Activities:

Operating revenue	\$ 0
Payments to vendors	<u>(7,329)</u>
Total Cash Flows from Operating Activities	<u>(7,329)</u>

Cash Flows from Capital and Related Financing Activities:

Benefit unit contributions	5,500
Loan proceeds	414,331
Grant proceeds	836,046
Principal paid on loan	(129)
Interest paid on loan	(26,202)
Capital assets purchased	<u>(1,015,727)</u>
Total Cash Flows from Capital and Related Financing Activities	<u>213,819</u>

Cash Flows from Investing Activities:

Interest revenue	<u>7</u>
------------------	----------

Net increase (decrease) in cash 206,497

Cash and cash equivalents, beginning of period 31,141

Cash and cash equivalents, end of period \$ 237,638

Reconciliation of operating income (loss) to net cash provided by operating activities:

Operating Income (loss)	\$ (7,329)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Prepaid expenses	<u>0</u>

Net Cash Provided by (Used in) Operating Activities (7,329)

The accompanying notes to the financial statements are an integral part of this statement

SEMINOLE COUNTY RURAL WATER DISTRICT NO. 7
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2012

Note 1 – Significant Accounting Policies

Basis of Accounting

The accrual basis of accounting is followed for all accounts. Revenues are recorded when earned and expenses are recognized when incurred. This policy is in accordance with generally accepted accounting principles.

Cash

The District's accounts at June 30, 2012, and are comprised as follows:

First United Bank, Seminole, OK-	
Operating account	\$ 5,353
Construction account	<u>232,285</u>
Total	<u>\$ 237,638</u>

The District's cash deposits at June 30, 2012, are categorized to give an indication of the level of risk assumed by the district at year-end.

Investments

The District had no outstanding investments at June 30, 2012.

Statement of Cash Flows

For purposes of the statement of cash flows, the District considers all highly liquid investments, such as certificates of deposit, as cash equivalents.

Federal Income Tax

The District is exempt from all federal and state income taxes.

SEMINOLE COUNTY RURAL WATER DISTRICT NO. 7
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2012

Note 1 – Significant Accounting Policies

Collateral Pledged

It appears that all funds were adequately insured by F.D.I.C. as of June 30, 2012, as the total balances of all cash and investments did not exceed \$250,000.

Prior Year Information

Prior year information is shown on the financial statements for comparative purposes only. No assurance is given on prior year amounts.

Contributed Capital

The District has received grant proceeds to assist in the construction of the water system from the Oklahoma Water Resources Board in the amount of \$150,000 in the 2010-11 fiscal year. The District also received \$180,000 from the Chickasaw Nation Health System to assist in the construction of the water system, and \$8,000 to purchase benefit units for tribal members in the District (which will become part of contributed capital upon completion of the water system project). In 2011-12, the District received \$836,046 from Rural Development for the water system project, and are scheduled to receive an additional \$221,514 in grant proceeds in the 2012-13 year.

Note 2 – Reserve for Contributed Capital

According to the District by-laws, the consideration paid for benefit units is classified as a donation to the District, and will be refunded to the member only if the project is abandoned prior to the beginning of construction. Because construction has begun as of the date of this audit, but not entirely completed, these funds are still classified as liabilities for the 2011-12 fiscal year. As the construction process continues, and the project is assured of existence and continuance, these funds will be transferred to the member equity section of the balance sheet, and classified as contributed capital.

SEMINOLE COUNTY RURAL WATER DISTRICT NO. 7
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2012

Note 3 – Capital Assets

Capital (fixed) assets are valued at cost, and depreciation is computed by use of the straight-line method. The estimated useful life of these assets range from five to 40 years.

Capital (fixed) asset information for the 2011-12 fiscal year is as follows:

	<u>Balance at July 1, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at June 30, 2012</u>
Capital Assets (at cost):				
Water distribution system	\$ -			-
Construction in progress	1,221,301	1,015,727		2,237,028
Buildings and equipment	-			-
Total depreciated capital assets	<u>1,221,301</u>	<u>1,015,727</u>	<u>-</u>	<u>2,237,028</u>
Less accumulated depreciation for:				
Water distribution system	-	-	-	-
Buildings and equipment	-	-	-	-
Total accumulated depreciation	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Capital assets, net	<u>\$ 1,221,301</u>	<u>1,015,727</u>	<u>-</u>	<u>2,237,028</u>

Because the District began construction of the water system in the 2010-11 fiscal year, and continued in 2011-12, these costs are classified as construction in progress. Upon completion, these costs will be transferred to the water distribution system, and be depreciated each fiscal year.

Note 4 – Long-Term Debt

Notes payable consist of two notes to the Office of Rural Economic & Community Development. The notes payable at June 30th, are detailed as follows:

	<u>2012</u>	<u>2011</u>
Note No. 91-01, Rural Economic & Community Development, issued for \$1,019,000, dated 8-21-06, at 4.125% interest	\$ 1,018,895	604,669
Note No. 91-03, Rural Economic & Community Development, issued for \$295,000, dated 7-29-10, at 3.00% interest	<u>295,976</u>	<u>295,000</u>
Total	<u>\$ 1,314,871</u>	<u>899,669</u>

SEMINOLE COUNTY RURAL WATER DISTRICT NO. 7
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2012

Note 4 – Long-Term Debt – cont'd

The loan proceeds were received in the 2010-11 and 2011-12 fiscal years for the above amounts as shown. In 2011-12, the District paid \$129 in principal and \$26,202 in interest on these loans. Once water revenues begin to be collected by the District on a regular basis, a schedule of monthly debt payments will be established for both long-term notes.

SEMINOLE COUNTY RURAL WATER DISTRICT NO. 7
BALANCE SHEET
JUNE 30, 2012

	JUNE 30	
	2012	(Memo only) 2011
<u>ASSETS</u>		
Current Assets:		
Cash - Operating	\$ 5,353	146
Cash - Construction	232,285	30,995
Total current assets	<u>237,638</u>	<u>31,141</u>
Fixed Assets:		
Water system and improvements	<u>2,237,028</u>	<u>1,221,301</u>
Debt Issue Costs	<u>22,466</u>	<u>22,466</u>
Total Assets	<u><u>\$ 2,497,132</u></u>	<u><u>1,274,908</u></u>
<u>LIABILITIES AND MEMBER EQUITY</u>		
Long-Term Liabilities:		
Reserve for Contributed Capital	\$ 63,800	58,300
Notes Payable	<u>1,313,871</u>	<u>899,669</u>
Total long-term liabilities	<u>1,377,671</u>	<u>957,969</u>
Member Equity:		
Contributed capital	1,166,046	330,000
Retained earnings	<u>(46,585)</u>	<u>(13,061)</u>
Total member equity	<u>1,119,461</u>	<u>316,939</u>
Total Liabilities and Member Equity	<u><u>\$ 2,497,132</u></u>	<u><u>1,274,908</u></u>

SEMINOLE COUNTY RURAL WATER DISTRICT NO. 7
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED JUNE 30, 2012

	<u>2011-12</u>	<u>(Memo only) 2010-11</u>
Revenue from Operations	<u>\$ 0</u>	<u>0</u>
Expenses from Operations:		
Insurance	3,091	135
Postage/ PO box rental	106	210
Dues and fees	75	220
Audit fees	850	825
Repairs and maintenance	31	-
Utilities	3,095	-
Office supplies and expenses	<u>81</u>	<u>898</u>
Total expenses from operations	<u>7,329</u>	<u>2,288</u>
Net Income (Loss) from Operations	(7,329)	(2,288)
Other Income-		
Interest earnings	<u>7</u>	<u>131</u>
Other Expenses-		
Interest paid on long-term debt	<u>(26,202)</u>	<u>-</u>
Net Income (Loss)	(33,524)	(2,157)
Retained Earnings, Beginning of Period	<u>(13,061)</u>	<u>(10,904)</u>
Retained Earnings, End of Period	<u><u>\$ (46,585)</u></u>	<u><u>(13,061)</u></u>