

**RURAL WATER AND/OR SEWER AND/OR
GAS AND/OR SOLID WASTE MANAGEMENT
DISTRICT #7, SEQUOYAH COUNTY, OKLAHOMA**

AUDITED FINANCIAL STATEMENTS

SEPTEMBER 30, 2013 AND 2012



**RURAL WATER AND/OR SEWER AND/OR
GAS AND/OR SOLID WASTE MANAGEMENT DISTRICT #7,
SEQUOYAH COUNTY, OKLAHOMA**

SEPTEMBER 30, 2013 AND 2012

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Independent Auditor's Report

To the Board of Directors
Rural Water and/or Sewer and/or Gas and/or
Solid Waste Management District Number 7,
Sequoyah County, Oklahoma
Muldrow, Oklahoma

We have audited the accompanying financial statements of the **Rural Water and/or Sewer and/or Gas and/or Solid Waste Management District Number 7, Sequoyah County, Oklahoma (the District)**, as of and for the years ended September 30, 2013 and 2012, and the related notes to the financial statements, which collectively, comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant account estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Sequoyah County Water Association as of March 31, 2013 and 2012, and the respective changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

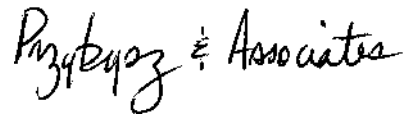
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements is required by the Governmental 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. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedule on page 18 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2013, 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* in considering the **Rural Water and/or Sewer and/or Gas and/or Solid Waste Management District Number 7's** internal control over financial reporting and compliance.



Przybysz & Associates, CPAs, P.C.
Fort Smith, Arkansas
October 22, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

**RURAL WATER AND/OR SEWER AND/OR GAS AND/OR SOLD WASTE
MANAGEMENT DISTRICT #7
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

This section of the Rural Water and/or Sewer and/or Gas and/or Solid Waste Management District #7, Sequoyah County, Oklahoma annual financial report presents the analysis of the District's financial performance during the fiscal year ended September 30, 2013. This information is presented in conjunction with the audited basic financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District ended the year September 30, 2013 with a net asset balance of \$2,468,447.
- The change in net position or net income of the District was an increase of \$81,583.
- The District expended \$164,169 in capital assets during the year.
- The statement of cash flows identifies sources and uses of cash activity for the fiscal year. For fiscal year 2013, cash and cash equivalents increased by \$159,468. Cash provided from the day to day operations totaled \$240,545. Cash used by capital and related financing activities totaled \$183,537. Of this amount, \$164,169 was used to purchase capital assets and \$19,368 was used to service debt. Cash provided by investing activities totaled \$102,026; this was largely due to redeeming a certificate of deposit for \$100,000.

OVERVIEW OF THE FINANCIAL STATEMENTS

This financial report consists of the following parts: Management's Discussion and Analysis and Basic Financial Statements. The financial statements include notes which explain in detail some of the information included in the basic financial statements.

REQUIRED FINANCIAL STATEMENTS

The Financial Statements of the District report information utilizing the full accrual basis of accounting. The Financial Statements conform to accounting principles which are generally accepted in the United States of America. The Statement of Net Position includes information on the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). The Statement of Revenue, Expenses and Changes in Net Position identifies the District's revenues and expenses for the fiscal year ended September 30, 2013. This statement provides information on the District's operations over the past fiscal year and can be used to determine whether the District has recovered all of its actual and projected costs through user fees and other charges. The third financial statement is the Statement of Cash Flows. This statement provides information on the District's cash receipts, cash payments and changes in cash resulting from operations, investments, and financing activities. The net result of these activities added to the beginning of the year cash balance total to the cash equivalent balance at the end of the current fiscal year.

**RURAL WATER AND/OR SEWER AND/OR GAS AND/OR SOLD WASTE
MANAGEMENT DISTRICT #7
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

CONDENSED FINANCIAL INFORMATION

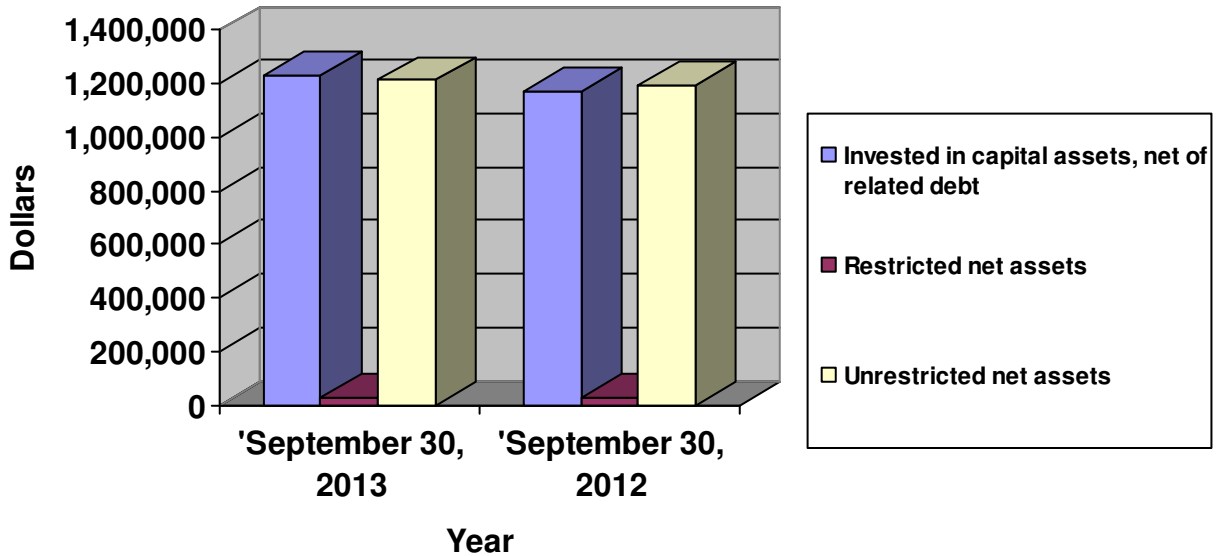
Condensed financial information from the statement of net assets as of September 30, 2013 and 2012 and the statement of revenues, expenses and changes in net assets for the years then ended are as follows:

	September 30,	
	2013	2012
Current assets	\$ 1,343,676	\$ 1,286,275
Capital assets, net	1,479,852	1,425,918
Total assets	<u>2,823,528</u>	<u>2,712,193</u>
Current liabilities	113,030	76,205
Long-term liabilities	242,051	249,124
Total liabilities	<u>355,081</u>	<u>325,329</u>
Net assets:		
Invested in capital assets, net of related debt	1,230,729	1,170,066
Restricted	25,572	25,508
Unrestricted	1,212,146	1,191,290
Total net assets	<u>\$ 2,468,447</u>	<u>\$ 2,386,864</u>
Operating revenues	<u>\$ 1,132,511</u>	<u>\$ 1,124,499</u>
Operating expenses, excluding depreciation	938,094	931,434
Depreciation	110,235	119,469
Total operating expenses, including depreciation	<u>1,048,329</u>	<u>1,050,903</u>
Operating income (loss)	84,182	73,596
Nonoperating revenues (expenses)	<u>(2,599)</u>	<u>(3,687)</u>
Increase in net assets	81,583	69,909
Beginning of year net assets	<u>2,386,864</u>	<u>2,316,955</u>
End of year net assets	<u>\$ 2,468,447</u>	<u>\$ 2,386,864</u>

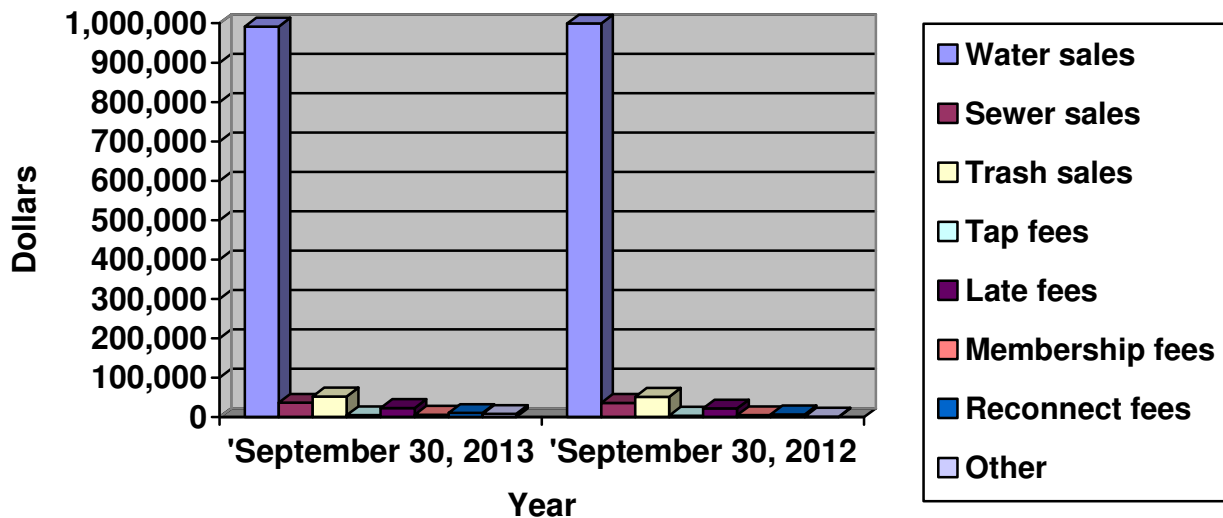
**RURAL WATER AND/OR SEWER AND/OR GAS AND/OR SOLD WASTE
MANAGEMENT DISTRICT #7
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

CONDENSED FINANCIAL INFORMATION (CONTINUED)

Classifications of net assets presented in a graph format



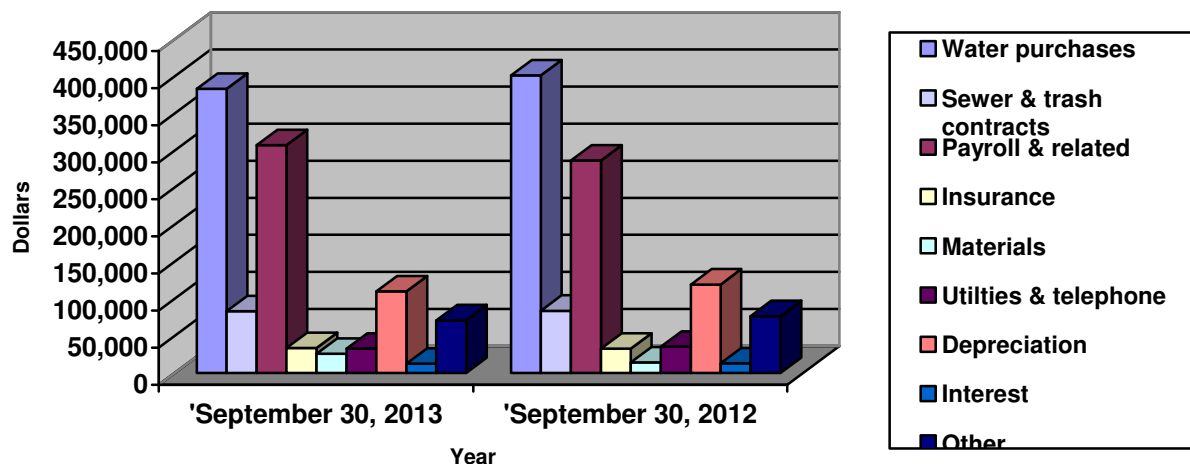
Operating revenues presented in a graph format



**RURAL WATER AND/OR SEWER AND/OR GAS AND/OR SOLD WASTE
MANAGEMENT DISTRICT #7
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

CONDENSED FINANCIAL INFORMATION (CONTINUED)

Operating expenses presented in a graph format



CAPITAL ASSETS

The District's capital assets, net of depreciation, as of September 30, 2013 and 2012 amounted to \$1,479,852 and \$1,425,918 (net of accumulated depreciation) respectively. Current year additions consisted of \$115,591 spent toward the Carson Ridge project, \$10,000 for land for the new water tank, \$24,868 for a 2013 GMC truck, and \$13,710 for miscellaneous additions. This investment in capital assets includes land, water system, the office building, machinery and equipment, office furniture and fixtures, and transportation equipment.

LONG-TERM DEBT

As of September 30, 2013, the District had \$249,122 in outstanding debt compared to \$255,852 as of September 30, 2012. The net decrease was the result of scheduled principal payments on the loan with Rural Development.

ADDITIONAL FINANCIAL INFORMATION

This financial report is designed to provide the District's customers, investors and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or need additional financial information, please contact the Sequoyah County Rural Water and/or Sewer and/or Gas and/or Solid Waste Management District #7, Sequoyah County, Oklahoma, 2000 E. Shawntel Smith Blvd., Muldrow, Oklahoma 74948.

FINANCIAL STATEMENTS

**RURAL WATER AND/OR SEWER AND/OR
GAS AND/OR SOLID WASTE MANAGEMENT DISTRICT #7,
SEQUOYAH COUNTY, OKLAHOMA**

Statements of Net Assets

AS OF SEPTEMBER 30,	2013	2012
Assets		
Current Assets		
Cash and cash equivalents	\$ 267,026	\$ 107,558
Restricted cash	25,572	25,508
Certificates of deposit	931,711	1,024,197
Accounts receivable, net of allowance for doubtful accounts	98,779	110,248
Prepaid insurance	20,588	18,764
Total Current Assets	1,343,676	1,286,275
Noncurrent Assets		
Capital Assets		
Land	49,005	39,005
Buildings and improvements	216,990	211,739
Water distribution system and improvements	2,793,305	2,788,145
Machinery and equipment	132,427	129,928
Vehicles	158,943	134,075
Office equipment	69,749	68,948
Construction in process	362,076	246,486
Total Capital Assets	3,782,495	3,618,326
Less: accumulated depreciation	2,302,643	2,192,408
Net Capital Assets	1,479,852	1,425,918
Total Assets	2,823,528	2,712,193
Liabilities		
Current Liabilities		
Accounts payable	71,484	60,598
Salaries and wages payable	3,541	3,825
Payroll taxes and other withholdings payable	30,865	4,984
Accrued interest	68	70
Current maturity of long-term debt	7,072	6,728
Total Current Liabilities	113,030	76,205
Long-Term Debt	242,051	249,124
Total Liabilities	355,081	325,329
Net Position		
Net investment in capital assets	1,230,729	1,170,066
Restricted	25,572	25,508
Unrestricted	1,212,146	1,191,290
Total Net Position	\$ 2,468,447	\$ 2,386,864

See accompanying notes.

**RURAL WATER AND/OR SEWER AND/OR
GAS AND/OR SOLID WASTE MANAGEMENT DISTRICT #7,
SEQUOYAH COUNTY, OKLAHOMA**

Statements of Revenue, Expenses and Changes in Net Positions

FOR THE YEARS ENDED SEPTEMBER 30,	2013	2012
Operating Revenue		
Metered water sales, net of bad debts	\$ 991,649	\$ 999,227
Sewer sales	36,365	35,866
Trash sales	52,232	51,545
Membership fees	5,915	4,550
Tap fees	4,785	3,600
Late fees	23,165	21,977
Reconnect fees	10,255	6,861
Other	8,145	873
Total Operating Revenue	1,132,511	1,124,499
Operating Expenses		
Water purchases	383,541	401,423
Sewer and trash contracts	83,403	84,036
Salaries and wages	207,315	233,840
Insurance	33,701	32,794
Pension expense	83,245	34,634
Payroll taxes	16,924	18,116
Materials	25,975	14,257
Convention and training	1,369	652
Utilities	25,065	28,654
Telephone	7,828	6,926
Computer supplies	1,721	846
Office supplies	8,104	7,926
Postage	6,790	6,609
Professional fees	5,207	4,005
Fees and dues	4,750	4,199
Repairs and maintenance	4,524	14,092
Vehicle expense	20,564	19,166
Supplies	4,162	5,324
Bank charges	4,696	2,715
Testing fees	5,165	4,150
Miscellaneous	4,045	7,070
Depreciation	110,235	119,469
Total Operating Expenses	1,048,329	1,050,903
Operating Income	84,182	73,596
Nonoperating Revenue (Expenses)		
Interest income	10,038	9,297
Interest expense	(12,637)	(12,984)
Total Net Nonoperating Revenue (Expenses)	(2,599)	(3,687)
Change in Net Position	81,583	69,909
Beginning of the Year Net Position	2,386,864	2,316,955
End of the Year Net Position	\$ 2,468,447	\$ 2,386,864

See accompanying notes.

RURAL WATER AND/OR SEWER AND/OR GAS AND/OR SOLID WASTE MANAGEMENT DISTRICT #7, SEQUOYAH COUNTY, OKLAHOMA

Statement of Cash Flows

FOR THE YEARS ENDED SEPTEMBER 30,	2013	2012
Cash Flows From Operating Activities		
Cash receipts from customers	\$ 1,145,611	\$ 1,106,367
Cash payments to suppliers for goods and services	(697,467)	(688,116)
Cash payments to employees for services	(207,599)	(232,256)
Net Cash Provided By Operating Activities	240,545	185,995
Cash Flows from Capital and Related Financing Activities		
Acquisition of capital assets	(164,169)	(135,416)
Principal paid on debt	(6,729)	(6,095)
Interest paid on debt	(12,639)	(13,273)
Net Cash Used in Capital and Related Financing Activities	(183,537)	(154,784)
Cash Flows From Investing Activities		
Redemption of certificates of deposit	100,000	-
Reinvestment of certificate of deposit earnings	(7,578)	(9,138)
Interest Income	10,038	9,297
Net Cash Provided By Investing Activities	102,460	159
Net Increase/(Decrease) in Cash and Cash Equivalents	159,468	31,370
Cash and Cash Equivalents at Beginning of Year	107,558	76,188
Cash and Cash Equivalents at End of Year	\$ 267,026	\$ 107,558
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 84,182	\$ 73,596
Adjustments:		
Depreciation	110,235	119,469
Net change in assets and liabilities		
Accounts receivable	11,469	2,317
Prepaid insurance	(1,824)	(6,105)
Accounts payable	10,886	3,056
Salaries and wages payable	(284)	380
Payroll taxes and other withholdings payable	25,881	(294)
Net Cash Provided by Operating Activities	\$ 240,545	\$ 192,419

See accompanying notes.

RURAL WATER AND/OR SEWER AND/OR GAS AND/OR SOLID WASTE MANAGEMENT DISTRICT #7, SEQUOYAH COUNTY, OKLAHOMA

Notes to Financial Statements

SEPTEMBER 30, 2013 AND 2012

Nature of Business

Rural Water and/or Sewer and/or Gas and/or Solid Waste Management District Number 7, Sequoyah County Oklahoma (the District) was formed in 1991 for the purpose of supplying water and sewer services to the residents of eastern Sequoyah County, Oklahoma.

1. Summary of Significant Accounting Policies

a. Financial Reporting

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting and reflect transactions on behalf of the District. The District accounts for its operations as an enterprise fund.

The financial statements of the Department have been prepared in accordance with generally accepted accounting principals (GAAP) in the United States. GAAP statements include all relevant Governmental Accounting Standards Board (GASB) pronouncements. The Department implemented GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in *Pre-November 30, 1989, FASB and AICPA Pronouncements*. This pronouncement incorporates the FASB, APB, and ARB pronouncements issued on or before November 30, 1989, which do not conflict with or contradict GASB pronouncements. The implementation of this pronouncement had no significant effect on the financial statements.

b. Capital Outlays and Depreciation

Capital outlays of the District are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Expenditures for maintenance, repairs and renewals of relatively minor items are charged to expense as incurred. The estimated useful lives of the assets are as follows:

	Life
Buildings and improvements	5-40 years
Water distribution system and improvements	10-40 years
Machinery and equipment	5-7 years
Vehicles	5 years
Office equipment	5-7 years

It is the District's policy to capitalize assets purchased for \$1,000 or more and to expense assets purchased for less than \$1,000.

RURAL WATER AND/OR SEWER AND/OR GAS AND/OR SOLID WASTE MANAGEMENT DISTRICT #7, SEQUOYAH COUNTY, OKLAHOMA

Notes to Financial Statements

SEPTEMBER 30, 2013 AND 2012

1. Summary of Significant Accounting Policies (Continued)

c. Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid debt instruments with a maturity of three months or less when purchased to be cash equivalents excluding restricted cash.

d. Income Taxes

The District is exempt from income taxes as a governmental agency.

e. Accounts Receivable

Management establishes an allowance for uncollectible accounts receivable based on historical collection experience and management's evaluation of the collectability of outstanding accounts receivable. The allowance for doubtful accounts was \$13,305 and \$11,674 as of September 30, 2013 and 2012, respectively.

f. 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.

g. Compensated Absences

Employees of the District do not accrue vacation or sick leave since it is the District's policy to not do so. Therefore, no provision has been made for such.

RURAL WATER AND/OR SEWER AND/OR GAS AND/OR SOLID WASTE MANAGEMENT DISTRICT #7, SEQUOYAH COUNTY, OKLAHOMA

Notes to Financial Statements

SEPTEMBER 30, 2013 AND 2012

2. Cash Deposits

The District had deposits in three area banks which are classified as follows:

September 30, 2013	Bank Value	Book Value
FDIC Insured	\$ 988,005	\$ 988,005
Collateralized	229,783	228,291
Uninsured/uncollateralized	7,420	7,419
Total Cash on Deposit	\$ 1,225,208	\$ 1,223,715

September 30, 2012	Bank Value	Book Value
FDIC Insured	\$ 839,339	\$ 839,339
Collateralized	364,557	311,349
Uninsured/uncollateralized	5,981	5,981
Total Cash on Deposit	\$ 1,209,877	\$ 1,156,669

Cash on deposit includes cash and cash equivalents, excluding petty cash of \$594 as of September 30, 2013 and 2012, certificates of deposits, and restricted cash.

3. Long-Term Debt

Long-term debt of the District consists of:

Rural Development - monthly payments are made in the amount of \$1,614 and include interest of 5.00%.

The note is secured by revenues of the District and is scheduled to mature in the year 2034.

	2013	2012
	\$ 249,123	\$ 255,852
Total debt	249,123	255,852
Less current maturity	7,072	6,728
Long-term debt	\$ 242,051	\$ 249,124

RURAL WATER AND/OR SEWER AND/OR GAS AND/OR SOLID WASTE MANAGEMENT DISTRICT #7, SEQUOYAH COUNTY, OKLAHOMA

Notes to Financial Statements

SEPTEMBER 30, 2013 AND 2012

3. Long-Term Debt (continued)

Debt is scheduled to mature as follows:

SEPTEMBER 30,	PRINCIPAL	INTEREST	TOTAL
2014	\$ 7,072	\$ 12,296	\$ 19,368
2015	7,434	11,934	19,368
2016	7,815	11,553	19,368
2017	8,214	11,154	19,368
2018	8,635	10,733	19,368
2019-2023	50,270	46,570	96,840
2024-2028	64,514	32,326	96,840
2029-2033	82,795	14,045	96,840
2034	12,374	231	12,605
Total	\$ 249,123	\$ 150,842	\$ 399,965

Activity of the long-term debt consists of the following:

	October 1, 2012	Debt Additions	Debt Retirements	September 30, 2013
Rural Development	\$ 255,852	\$ -	\$ 6,730	\$ 249,122
Total	\$ 255,852	\$ -	\$ 6,730	\$ 249,122

	October 1, 2011	Debt Additions	Debt Retirements	September 30, 2012
Rural Development	\$ 261,947	\$ -	\$ 6,095	\$ 255,852
Total	\$ 261,947	\$ -	\$ 6,095	\$ 255,852

4. Restricted Funds and Required Accounts

Debt reserve account established per the loan agreement with Rural Development. Monthly deposits in the amount of \$161.40, or 10% of the monthly loan payment, are required to be made until a balance of \$19,368 is achieved, after which deposits may be suspended, except to replace withdrawals. The balance of this account at September 30, 2013 and 2012, was \$25,572 and \$25,508 respectively.

RURAL WATER AND/OR SEWER AND/OR GAS AND/OR SOLID WASTE MANAGEMENT DISTRICT #7, SEQUOYAH COUNTY, OKLAHOMA

Notes to Financial Statements

SEPTEMBER 30, 2013 AND 2012

5. Capital Assets

Activity of capital assets consists of the following:

	October 1, 2012	Additions	Deletions/ Transfers	September 30, 2013
Land	\$ 39,005	\$ 10,000	\$ -	\$ 49,005
Buildings and improvements	211,739	5,251	-	216,990
Water distribution system	2,788,145	5,160	-	2,793,305
Machinery and equipment	129,928	2,499	-	132,427
Vehicles	134,075	24,868	-	158,943
Office equipment	68,948	801	-	69,749
Construction in process	246,486	115,590	-	362,076
Total	\$ 3,618,326	\$ 164,169	\$ -	\$ 3,782,495

	October 1, 2011	Additions	Deletions/ Transfers	September 30, 2012
Land	\$ 39,005	\$ -	\$ -	\$ 39,005
Buildings and improvements	207,739	4,000	-	211,739
Water distribution system	2,787,445	700	-	2,788,145
Machinery and equipment	129,928	-	-	129,928
Vehicles	134,075	-	-	134,075
Office equipment	68,948	-	-	68,948
Construction in process	115,770	130,716	-	246,486
Total	\$ 3,482,910	\$ 135,416	\$ -	\$ 3,618,326

6. Pension Plan

The District has an agreement with the State of Oklahoma to administer an "Oklahoma Public Employees Retirement" plan, effective January 1, 2001. This is a model plan qualifying as an exempt pension plan under the Internal Revenue Code.

Among other provisions, the District contributes 16.5% of each participant's annual compensation, while the participant contributes 3.5% of annual compensation to the plan each year. Contributions to the plan for the years ended September 30, 2013 and 2012, totaled \$83,245 and \$34,634 respectively.

RURAL WATER AND/OR SEWER AND/OR GAS AND/OR SOLID WASTE MANAGEMENT DISTRICT #7, SEQUOYAH COUNTY, OKLAHOMA

Notes to Financial Statements

SEPTEMBER 30, 2013 AND 2012

7. Contractual Agreements and Major Supplier

The District has a contractual agreement with the City of Fort Smith, Arkansas to obtain its water supply. Under the contract, it is understood that water being delivered to the District is considered to be that not presently needed by the water system of the City of Fort Smith. If, at any time, in the opinion of the governing body of the City of Fort Smith, the City does not have a sufficient supply of water to meet the needs of the retail customers of the water system of the City, the City shall have the right to terminate the agreement and discontinue the sale of water to the District upon thirty days written notice to the District. For the year ended September 30, 2013 the District purchased 99% of its water from the City of Fort Smith.

The District also has agreements with the Muldrow (Oklahoma) Utility Authority and the Sequoyah County (Oklahoma) Water Association to potentially purchase water from them in the future. For the year ended September 30, 2013 the District purchased 1% of its water from the Muldrow Utility Authority.

8. Concentrations of Credit Risk

Financial instruments that potentially subject the District to credit risk consist primarily of accounts receivable. The receivables are from individuals located within the same geographic region.

9. Risk Management

The District is exposed to various levels 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 blanket coverage and worker's compensation for risk of loss.

There has been no significant reduction in the District's insurance coverage from the previous year. In addition there have been no settlements in excess of the District's coverage in any of the prior three fiscal years.

10. Subsequent Events

The District has evaluated events and transactions for subsequent events that would impact the financial statements for the year ended September 30, 2013 through October 22, 2013, the date the financial statements were available to be issued. There were no subsequent events that require recognition or disclosure in the financial statements.

ADDITIONAL REQUIRED REPORT



PRZYBYSZ

& ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

**Independent Auditor's 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 and/or Sewer and/or Gas and/or
Solid Waste Management District Number 7,
Sequoyah County, Oklahoma
Muldrow, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Rural Water and/or Sewer and/or Gas and/or Solid Waste Management District Number 7, Sequoyah County, Oklahoma (the District), as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated October 22, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Przybysz & Associates, CPAs, P.C.
Fort Smith, Arkansas
October 22, 2013

SUPPLEMENTAL INFORMATION

RURAL WATER AND/OR SEWER AND/OR GAS AND/OR SOLID WASTE MANAGEMENT DISTRICT #7, SEQUOYAH COUNTY, OKLAHOMA

Additional Comments Required by Rural Development

SEPTEMBER 30, 2013

Water Rate Schedule

2013 Rate Schedule

Residential	Minimum Charge and Gallons	Charge After Minimum Gallons
1 Unit Residential	\$12 and 500 Gal.	\$0.71
2 Unit Residential	\$24 and 1000 Gal.	\$0.71
6 Unit Residential	\$72 and 3000 Gal.	\$0.71
14 Unit Residential	\$168 and 7000 Gal.	\$0.71

Commercial	Minimum Charge and Gallons	Charge After Minimum Gallons
1 Unit Commercial	\$12 and 500 Gal.	\$0.71
2 Unit Commercial	\$24 and 1000 Gal.	\$0.71

Note: Charge after Minimum Gallon usage is per one hundred gallons

Board of Directors

Name	Title
Robin Kelton	President
Jack Daily	Vice-president
Joe Shamblin	Secretary/Treasurer
Jeff Tomlin	Director
Terry Lockhart	Director

Accounting Records and Control Over Physical Assets

The District's accounting records, with the exception of normal adjusting entries, are in agreement with these financial statements. The accounting records of the District are adequate. The District's control over physical assets is adequate.

Material or Unusual Adjustments

The accounting records of the District incurred no unusual adjustments.

See independent auditor's report.