

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

**AUDITED FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2012 AND 2011**



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

**SEPTEMBER 30, 2012 AND 2011**

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## **Independent Auditor's Report**

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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, 2012 and 2011**, 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and 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 audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the **Rural Water and/or Sewer and/or Gas and/or Solid Waste Management District Number 7, Sequoyah County, Oklahoma** as of **September 30, 2012 and 2011**, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2012, on our consideration of the **Rural Water and/or Sewer and/or Gas and/or Solid Waste Management District Number 7, Sequoyah County, Oklahoma'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 read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 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.

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.



**Przybysz & Associates, CPAs, P.C.**  
**Fort Smith, Arkansas**  
**November 14, 2012**

## ***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, 2012**

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, 2012. 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, 2012 with a net asset balance of \$2,386,864.
- The change in net assets or net income of the District was an increase of \$69,909.
- The District expended \$135,416 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 2012, cash and cash equivalents increased by \$31,370. Cash provided from the day to day operations totaled \$185,995. Cash used by capital and related financing activities totaled \$154,784. Of this amount, \$135,416 was used to purchase capital assets and \$19,368 was used to service debt. Cash provided by investing activities totaled \$159.

**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 Assets include information on the District's assets and liabilities and provide 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 Assets identify the District's revenues and expenses for the fiscal year ended September 30, 2012. 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, 2012**

**CONDENSED FINANCIAL INFORMATION**

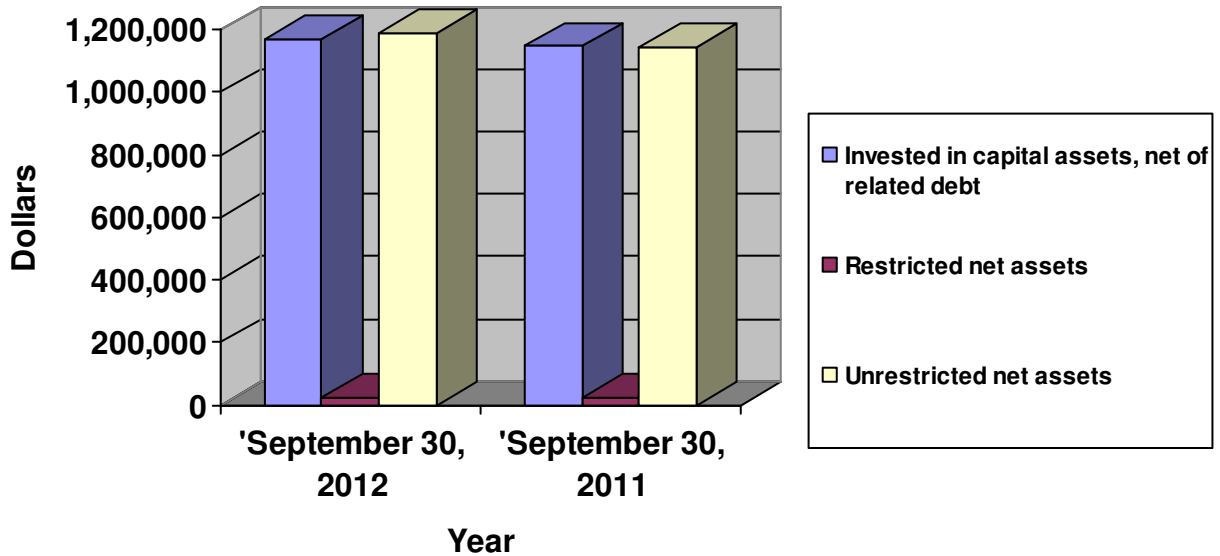
Condensed financial information from the statement of net assets as of September 30, 2012 and 2011 and the statement of revenues, expenses and changes in net assets for the years then ended are as follows:

	<b>September 30,</b>	
	<b>2012</b>	<b>2011</b>
Current assets	\$ 1,286,275	\$ 1,221,357
Capital assets, net	1,425,918	1,409,971
Total assets	<u>2,712,193</u>	<u>2,631,328</u>
Current liabilities	76,205	58,842
Long-term liabilities	249,124	255,531
Total liabilities	<u>325,329</u>	<u>314,373</u>
Net assets:		
Invested in capital assets, net of related debt	1,170,066	1,148,024
Restricted	25,508	25,355
Unrestricted	1,191,290	1,143,576
Total net assets	<u>\$ 2,386,864</u>	<u>\$ 2,316,955</u>
Operating revenues	<u>\$ 1,124,499</u>	<u>\$ 1,065,766</u>
Operating expenses, excluding depreciation	931,434	873,076
Depreciation	119,469	127,733
Total operating expenses, including depreciation	<u>1,050,903</u>	<u>1,000,809</u>
Operating income (loss)	73,596	64,957
Nonoperating revenues (expenses)	<u>(3,687)</u>	<u>328</u>
Increase in net assets	69,909	65,285
Beginning of year net assets	<u>2,316,955</u>	<u>2,251,670</u>
End of year net assets	<u>\$ 2,386,864</u>	<u>\$ 2,316,955</u>

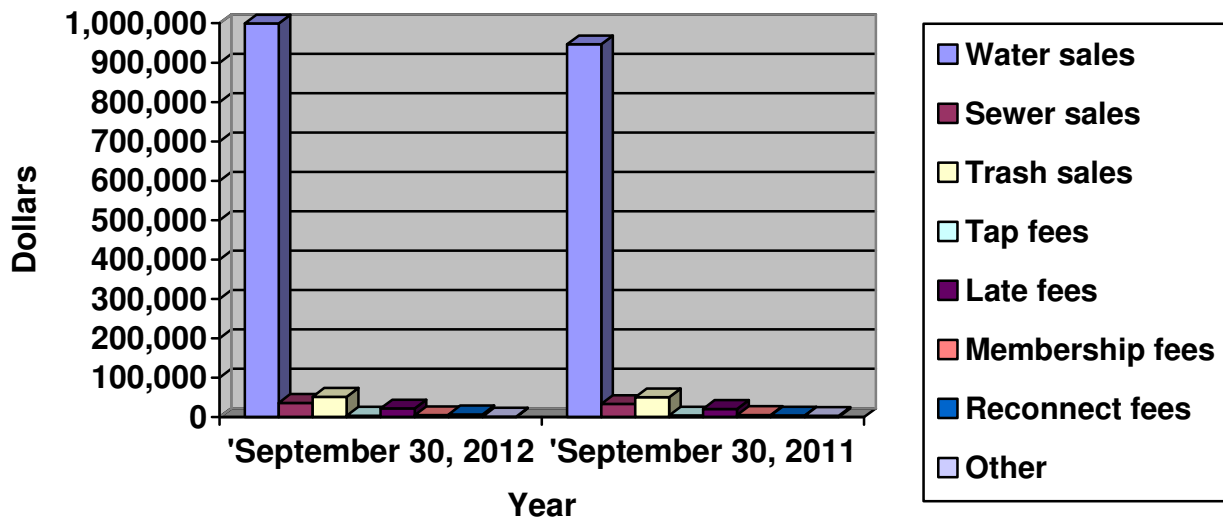
**RURAL WATER AND/OR SEWER AND/OR GAS AND/OR SOLD WASTE  
MANAGEMENT DISTRICT #7  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

**CONDENSED FINANCIAL INFORMATION (CONTINUED)**

**Classifications of net assets presented in a graph format**



**Operating revenues presented in a graph format**

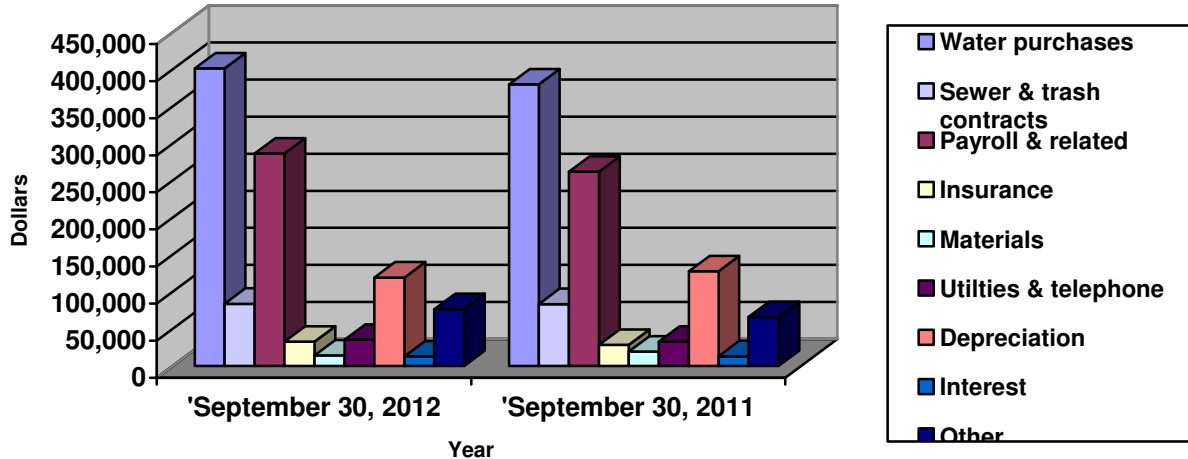




**RURAL WATER AND/OR SEWER AND/OR GAS AND/OR SOLID WASTE  
MANAGEMENT DISTRICT #7  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

**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, 2012 and 2011 amounted to \$1,425,918 and \$1,409,971 (net of accumulated depreciation) respectively. Current year additions consisted of \$130,716 spent toward the Carson Ridge project, \$700 for lightening protection at the pump station, and \$4,000 for a new A/C unit for the office. 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, 2012, the District had \$255,852 in outstanding debt compared to \$261,947 as of September 30, 2011. 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**

<b>AS OF SEPTEMBER 30,</b>	<b>2012</b>	<b>2011</b>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 107,558	\$ 76,188
Restricted cash	25,508	25,355
Certificates of deposit	1,024,197	1,015,212
Accounts receivable, net of allowance for doubtful accounts	110,248	92,116
Prepaid insurance	18,764	12,486
<b>Total Current Assets</b>	<b>1,286,275</b>	<b>1,221,357</b>
<b>Noncurrent Assets</b>		
<b>Capital Assets</b>		
Land	39,005	39,005
Buildings and improvements	211,739	207,739
Water distribution system and improvements	2,788,145	2,787,445
Machinery and equipment	129,928	129,928
Vehicles	134,075	134,075
Office equipment	68,948	68,948
Construction in process	246,486	115,770
<b>Total Capital Assets</b>	<b>3,618,326</b>	<b>3,482,910</b>
Less: accumulated depreciation	2,192,408	2,072,939
<b>Net Capital Assets</b>	<b>1,425,918</b>	<b>1,409,971</b>
<b>Total Assets</b>	<b>2,712,193</b>	<b>2,631,328</b>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable	60,598	44,150
Salaries and wages payable	3,825	2,241
Payroll taxes payable	4,984	5,676
Accrued interest	70	359
Current maturity of long-term debt	6,728	6,416
<b>Total Current Liabilities</b>	<b>76,205</b>	<b>58,842</b>
<b>Long-Term Debt</b>	<b>249,124</b>	<b>255,531</b>
<b>Total Liabilities</b>	<b>325,329</b>	<b>314,373</b>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	1,170,066	1,148,024
Restricted	25,508	25,355
Unrestricted	1,191,290	1,143,576
<b>Total Net Assets</b>	<b>\$ 2,386,864</b>	<b>\$ 2,316,955</b>

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 Assets**

<b>FOR THE YEARS ENDED SEPTEMBER 30,</b>	<b>2012</b>	<b>2011</b>
<b>Operating Revenue</b>		
Metered water sales, net of bad debts	\$ 999,227	\$ 946,395
Sewer sales	35,866	33,065
Trash sales	51,545	50,026
Membership fees	4,550	5,005
Tap fees	3,600	4,045
Late fees	21,977	20,396
Reconnect fees	6,861	3,816
Other	873	3,018
<b>Total Operating Revenue</b>	<b>1,124,499</b>	<b>1,065,766</b>
<b>Operating Expenses</b>		
Water purchases	401,423	379,828
Sewer and trash contracts	84,036	83,611
Salaries and wages	233,840	214,640
Insurance	32,794	28,435
Pension expense	34,634	30,154
Payroll taxes	18,116	17,345
Materials	14,257	19,687
Convention and training	652	537
Utilities	28,654	26,480
Telephone	6,926	6,590
Computer supplies	846	461
Office supplies	7,926	8,387
Postage	6,609	7,167
Professional fees	4,005	3,989
Fees and dues	4,199	3,801
Repairs and maintenance	14,092	12,672
Vehicle expense	19,166	18,402
Supplies	5,324	3,120
Bank charges	2,715	2,368
Testing fees	4,150	1,890
Miscellaneous	7,070	3,512
Depreciation	119,469	127,733
<b>Total Operating Expenses</b>	<b>1,050,903</b>	<b>1,000,809</b>
<b>Operating Income</b>	<b>73,596</b>	<b>64,957</b>
<b>Nonoperating Revenue (Expenses)</b>		
Interest income	9,297	13,540
Interest expense	(12,984)	(13,212)
<b>Total Net Nonoperating Revenue (Expenses)</b>	<b>(3,687)</b>	<b>328</b>
<b>Change in Net Assets</b>	<b>69,909</b>	<b>65,285</b>
Beginning of the Year Net Assets	2,316,955	2,251,670
<b>End of the Year Net Assets</b>	<b>\$ 2,386,864</b>	<b>\$ 2,316,955</b>

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,	2012	2011
<b>Cash Flows From Operating Activities</b>		
Cash receipts from customers	\$ 1,106,367	\$ 1,065,066
Cash payments to suppliers for goods and services	(688,116)	(658,763)
Cash payments to employees for services	(232,256)	(214,259)
<b>Net Cash Provided By Operating Activities</b>	185,995	192,044
<b>Cash Flows from Capital and Related Financing Activities</b>		
Acquisition of capital assets	(135,416)	(81,945)
Principal paid on debt	(6,095)	(6,148)
Interest paid on debt	(13,273)	(13,220)
<b>Net Cash Used in Capital and Related Financing Activities</b>	(154,784)	(101,313)
<b>Cash Flows From Investing Activities</b>		
Purchase of certificates of deposit	0	(275,000)
Reinvestment of certificate of deposit earnings	(9,138)	(13,199)
Interest Income	9,297	13,540
<b>Net Cash Provided (Used) By Investing Activities</b>	159	(274,659)
<b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>	31,370	(183,928)
Cash and Cash Equivalents at Beginning of Year	76,188	260,116
<b>Cash and Cash Equivalents at End of Year</b>	\$ 107,558	\$ 76,188
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>		
Operating income	\$ 73,596	\$ 64,957
Adjustments:		
Depreciation	119,469	127,733
Net change in assets and liabilities		
Accounts receivable	(18,132)	2,317
Prepaid insurance	(6,278)	(6,105)
Accounts payable	16,448	3,056
Salaries and wages payable	1,584	380
Payroll taxes payable	(692)	(294)
<b>Net Cash Provided by Operating Activities</b>	\$ 185,995	\$ 192,044

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, 2012 AND 2011**

### **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.

*Under GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Government Entities that Use Proprietary Fund Accounting*, the entity has adopted the option to apply only those Financial Accounting Standards Board (FASB) statements and interpretations issued before November 30, 1989, that do not conflict with or contradict GASB pronouncements. Only GASB pronouncements issued after this date will be followed.

#### **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:

	<u>Life</u>
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, 2012 AND 2011**

### **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 \$11,674 and \$9,645 as of September 30, 2012 and 2011, 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.

#### **h. Advertising**

The cost of advertising is charged to expense as incurred.

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

## Notes to Financial Statements

SEPTEMBER 30, 2012 AND 2011

### 2. Cash Deposits

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

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

<b>September 30, 2011</b>	<b>Bank Value</b>	<b>Book Value</b>
FDIC Insured	\$ 805,695	\$ 805,720
Collateralized	348,481	306,659
Uninsured/uncollateralized	3,782	3,782
<b>Total Cash on Deposit</b>	<b>\$ 1,157,958</b>	<b>\$ 1,116,161</b>

Cash on deposit includes cash and cash equivalents, excluding petty cash of \$594 as of September 30, 2012 and 2011, 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.

	<b>2012</b>	<b>2011</b>
	\$ 255,852	\$ 261,947
<b>Total debt</b>	<b>255,852</b>	<b>261,947</b>
<b>Less current maturity</b>	<b>6,728</b>	<b>6,416</b>
<b>Long-term debt</b>	<b>\$ 249,124</b>	<b>\$ 255,531</b>



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

## **Notes to Financial Statements**

**SEPTEMBER 30, 2012 AND 2011**

### **3. Long-Term Debt (continued)**

Debt is scheduled to mature as follows:

<b>SEPTEMBER 30,</b>	<b>PRINCIPAL</b>	<b>INTEREST</b>	<b>TOTAL</b>
2013	\$ 6,728	\$ 12,640	\$ 19,368
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
2018-2022	47,823	49,017	96,840
2023-2027	61,374	35,466	96,840
2028-2032	78,765	18,075	96,840
2033-2034	30,627	1,589	32,216
Total	\$ 255,852	\$ 163,724	\$ 419,576

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

	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

	October 1, 2010	Debt Additions	Debt Retirements	September 30, 2011
Rural Development	\$ 268,095	\$ -	\$ 6,148	\$ 261,947
Total	\$ 268,095	\$ -	\$ 6,148	\$ 261,947

### **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, 2011 and 2010, was \$25,508 and \$25,355 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, 2012 AND 2011

### 5. Capital Assets

Activity of capital assets consists of the following:

	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
<b>Total</b>	<b>\$ 3,482,910</b>	<b>\$ 135,416</b>	<b>\$ -</b>	<b>\$ 3,618,326</b>

	October 1, 2010	Additions	Deletions/ Transfers	September 30, 2011
Land	\$ 39,005	\$ -	\$ -	\$ 39,005
Buildings and improvements	207,739	-	-	207,739
Water distribution system	2,787,445	-	-	2,787,445
Machinery and equipment	129,928	-	-	129,928
Vehicles	134,075	-	-	134,075
Office equipment	68,948	-	-	68,948
Construction in process	33,825	81,945	-	115,770
<b>Total</b>	<b>\$ 3,400,965</b>	<b>\$ 81,945</b>	<b>\$ -</b>	<b>\$ 3,482,910</b>

### 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, 2012 and 2011, totaled \$34,634 and \$30,154 respectively.

Employees of the District are eligible to participate in the plan after twelve months of service and attaining the age of twenty-one.

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

## **Notes to Financial Statements**

**SEPTEMBER 30, 2012 AND 2011**

### **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, 2011 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, 2011 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.

***ADDITIONAL REQUIRED REPORT***



**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***

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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 financial statements of the Rural Water and/or Sewer and/or Gas and/or Solid Waste Management District Number 7, Sequoyah County, Oklahoma as of and for the year ended September 30, 2012 and have issued our report thereon dated November 14, 2012. 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 *Governmental 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 and 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 District'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 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.

Our 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. 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 or other matters that are required to be reported under *Government Auditing Standards*.

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



**Przybysz & Associates, CPAs, P.C.**  
**Fort Smith, Arkansas**  
**November 14, 2012**

## ***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**

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**SEPTEMBER 30, 2012**

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## **Water Rate Schedule**

### **2012 Rate Schedule**

<b>Residential</b>	<b>Minimum Charge and Gallons</b>	<b>Charge After Minimum Gallons</b>
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

<b>Commercial</b>	<b>Minimum Charge and Gallons</b>	<b>Charge After Minimum Gallons</b>
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**

<b>Name</b>	<b>Title</b>
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.