

RURAL WATER DISTRICT NO.7
WASHINGTON COUNTY, OKLAHOMA
COPAN, OKLAHOMA
ANNUAL FINANCIAL REPORT
DECEMBER 31, 2010

RALPH OSBORN
CERTIFIED PUBLIC ACCOUNTANT
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P.O. BOX 1015
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INDEPENDENT AUDITORS' REPORT

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

I have audited the accompanying financial statements of the business-type activities of Rural Water District No. 7, Washington County, Copan, Oklahoma as of and for the year ended December 31, 2010, which collectively comprise Rural Water District No. 7's basic financial statements. These financial statements are the responsibility of Rural Water District No. 7'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.

As discussed in Note A, Rural Water District No. 7, Washington County, Copan, Oklahoma prepares its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position - modified cash basis of the business-type activities of Rural Water District No. 7 as of December 31, 2010, and the respective changes in financial position - modified cash basis and cash flows where appropriate, thereof, in conformity with the modified cash basis of accounting.

Rural Water District No. 7 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 statement.

In accordance with *Government Auditing Standards*, I have also issued my report dated June 15, 2011, on my consideration of Rural Water District No. 7's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

Ralph Osborn

Ralph Osborn
Certified Public Accountant
Bristow, Oklahoma
June 15, 2011

RURAL WATER DISTRICT NO. 7
WASHINGTON COUNTY, OKLAHOMA
COPAN, OKLAHOMA
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
DECEMBER 31, 2010

ASSETS

Current assets:	
Cash and cash equivalents	\$ 36,238
Total current assets	<u>36,238</u>
Restricted assets:	
Cash for debt service	<u>41,654</u>
Total restricted assets	<u>41,654</u>
Non-current assets:	
Capital assets:	
Other capital assets, net of accumulated depreciation	<u>873,579</u>
Total non-current assets	<u>873,579</u>
Total assets	<u>951,471</u>

LIABILITIES

Current liabilities:	
Notes payable, current	<u>5,050</u>
Total current liabilities	<u>5,050</u>
Non-current liabilities:	
Notes payable, non-current	<u>66,100</u>
Total non-current liabilities	<u>66,100</u>
Total liabilities	<u>71,150</u>

NET ASSETS

Nonspendable	802,429
Restricted for debt service	41,654
Unrestricted	<u>36,238</u>
Net assets	<u>\$ 880,321</u>

The accompanying notes are an integral part of these financial statements.

RURAL WATER DISTRICT NO. 7
WASHINGTON COUNTY, OKLAHOMA
COPAN, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2010

OPERATING REVENUES

Charges for services:	
Water charges	\$ 56,942
Penalty	2,235
Memberships	<u>2,725</u>
Total operating revenues	<u>61,902</u>

OPERATING EXPENSES

Water purchases	17,783
Bookkeeping	3,668
Insurance	1,180
Management fees	5,253
Memberships	174
License and fees	1,000
Office expense	1,297
Professional fees	1,600
Sample Testing	578
Other	225
Supplies	722
Telephone and utilities	866
Depreciation	<u>16,738</u>
Total operating expenses	<u>51,084</u>
Operating income (loss)	<u>10,818</u>

NON-OPERATING REVENUE (EXPENSES)

Investment income	288
Interest on notes payable and fiscal fees	<u>(1,249)</u>
Total non-operating revenue (expenses)	<u>(961)</u>
Net income (loss)	9,857
Total net assets, beginning	<u>870,464</u>
Total net assets, ending	<u><u>\$ 880,321</u></u>

The accompanying notes are an integral part of these financial statements.

RURAL WATER DISTRICT NO. 7
WASHINGTON COUNTY, OKLAHOMA
COPAN, OKLAHOMA
STATEMENT OF CASH FLOWS-MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2010

Cash flows from operating activities	
Cash received from customers	\$ 78,640
Cash payments to suppliers for goods and services	<u>(51,084)</u>
Net cash provided (used) by operating activities	<u>27,556</u>
Cash flows from capital and related financing activities	
Interest paid on notes payable and fiscal fees	(1,249)
Principal paid on notes payable	<u>(39,800)</u>
Net cash used for capital and related financing activities	<u>(41,049)</u>
Cash flows from investing activities	
Interest revenue	<u>288</u>
Net cash provided by investing activities	<u>288</u>
Net increase (decrease) in cash and cash equivalents	(13,205)
Cash and cash equivalents, beginning	<u>91,097</u>
Cash and cash equivalents, ending	<u>\$ 77,892</u>
Reconciliation of operating income (loss) to net cash provided by (used) by operating activities:	
Operating income (loss)	\$ 10,818
Adjustments to reconcile operating income to net cash used by operating activities:	
Depreciation	<u>16,738</u>
Net cash provided by operating activities	<u>\$ 27,556</u>

The accompanying notes are an integral part of these financial statements.

RURAL WATER DISTRICT NO. 7
WASHINGTON COUNTY, OKLAHOMA
COPAN, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Rural Water District No. 7 (the "District") was created May 20, 1996 by the Board of County Commissioners of Washington County, Oklahoma under the provisions of the Rural Water District Act (Title 82 Oklahoma Statutes 1961, Sections 1301 to 1321). The District is managed by a five member Board of Directors. Members of the board are elected by the membership of the District at its annual meeting. Membership in the District is attained by paying membership dues and receiving services from the District. The activities of the District constitute the entire reporting entity. There are no other component or oversight units. The District is a political subdivision of the state of Oklahoma. The District had water sales beginning in the 2004 fiscal year.

Government-Wide and Fund Financial Statements

The District is a special purpose governmental entity engaged only in business type activities. The District prepares financial statements required for enterprise funds.

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus

In the financial statements business-like activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. Assets and liabilities (whether current or non-current, financial, or non-financial) associated with their activities are reported as described in the following paragraphs. Fund equity is classified as net assets.

Basis of Accounting

In the financial statements, business-like activities are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenues, and expenditures/expenses when they result from cash transactions with a provision for depreciation and notes payable. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. If the District utilized the basis of accounting recognized as generally accepted in the United States of America, the financial statements would use the accrual basis of accounting.

RURAL WATER DISTRICT NO. 7
WASHINGTON COUNTY, OKLAHOMA
COPAN, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

FUND TYPES AND MAJOR FUNDS

The District reports all activity within a single fund.

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 Investment reported in the financial statements is a certificate of deposit.

Capital Assets, Depreciation, and Amortization

The District's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost or at estimated historical cost for those items not previously reported. The District maintains infrastructure assets records consistent with all other capital assets. Donated assets are stated at fair value on the date donated. The District generally capitalizes assets with a cost of \$2,500 or more as purchase and construction outlay occur. 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 with one-half year depreciation in the year acquired and one-half in the year of disposal. 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	5-60

Compensated Absences

The District does not have employees.

Reserves and Designations

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

RURAL WATER DISTRICT NO. 7
WASHINGTON COUNTY, OKLAHOMA
COPAN, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

Use of Estimates

The preparation of financial statements in conformity with the modified cash basis 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, 2010, all of the District's 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 \$77,892 at December 31, 2010. The bank balance of the deposits at December 31, 2010 was approximately \$77,892.

Credit Risk

Fixed-income securities are subject to credit risk. However, the District did not have fixed income securities at December 31, 2010.

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, 2010, the District's deposits consisted of demand deposits and certificates of deposit with a maturity of 12 months or less.

NOTE C - RESTRICTED ASSETS

The District has reported as restricted assets cash held by a trustee bank for use in relation to the note payable listed in Note F. The cash reported in the Statement of Net Assets is restricted as indicated. This cash is not available for other purposes.

RURAL WATER DISTRICT NO. 7
WASHINGTON COUNTY, OKLAHOMA
COPAN, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE D - CAPITAL ASSETS

Changes in capital assets.

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

	<u>CAPITAL ASSETS, DEPRECIATED</u>			
	Infrastructure & Improvements Other Than		Furniture, Machinery, And	Totals
	<u>Buildings</u>	<u>Buildings</u>	<u>Equipment</u>	
Business-type activities				
Balance, Dec. 31, 2009	\$ -	\$ 976,121	\$ -	\$ 976,121
Increases	-	-	-	-
Decreases	-	-	-	-
Balance, Dec. 31, 2010	<u>-</u>	<u>976,121</u>	<u>-</u>	<u>976,121</u>
Accumulated Depreciation				
Balance, Dec. 31, 2009	-	85,804	-	85,804
Increase	-	16,738	-	16,738
Decreases	-	-	-	-
Balance, Dec. 31, 2010	<u>-</u>	<u>102,542</u>	<u>-</u>	<u>102,542</u>
Business-type Activities				
Capital Assets, Net	<u>\$ -</u>	<u>\$ 873,579</u>	<u>\$ -</u>	<u>\$ 873,579</u>

NOTE E - NOTE PAYABLE PROPRIETARY FUND

The District obtained a loan from the Oklahoma Water Resources Board in the amount of \$250,000 on January 1, 2004. The loan is to be used for extending the system. The District was to make semi-annual principal and interest payments with the final payment due September 15, 2033. The interest rate on the loan is variable. It is set every six months by the Oklahoma Water Resources Board. The interest rate at December 31, 2010 was 1.450%. During the year ended December 31, 2010, the District paid \$1,249 interest on the loan.

Following is the anticipated annual debt service amounts for principal payments. Interest amounts will fluctuate depending upon the interest rate.

<u>Year Ended December 31</u>	<u>Principal</u>
2011	\$ 5,050
2012	5,350
2013	5,600
2014	6,000
2015	6,250
2016-2020	37,000
2021	<u>5,900</u>
Total	<u>\$ 71,150</u>

The District made a payment of \$117,000 on the principal balance March 13, 2009. On March 27, 2009, OWRB changed the payment schedule from semi-annual to quarterly and the variable interest rate is set every three months instead of every six months. The District made a payment of \$35,000 on the principal balance March 10, 2010. The maturity date of the loan changed to September 15, 2021.

RURAL WATER DISTRICT NO. 7
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE F - DEBT SERVICE COVERAGE

The District is required to maintain rates sufficient to provide net revenue available for debt service equal to at least 125% of the annual debt service. The ratio is calculated as follows:

Operating income	\$ 61,902
Operating expense	<u>34,346</u>
Net operating income	27,556
Interest income	<u>288</u>
Income available for debt service	<u>\$ 27,844</u>
Debt principal and interest	<u>\$ 6,082</u>
Ratio	4.58 to 1.00

NOTE G - 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; and natural disasters. The District carries commercial insurance for risk of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE H - CONTRACTS

The District purchases water for resale from Copan Public Works Authority, Copan, Oklahoma, under the terms of a Water Purchase Agreement dated August 26, 2003. The contract extends for an initial term of one year and thereafter is to be reviewed annually for successive one year terms until terminated. The price paid by the District is determined based on costs incurred by the Authority in producing the water purchased. The contract contains terms defining the costs to be considered.

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 No. 7
Washington County
Copan, Oklahoma

I have audited the financial statements - modified cash basis of the business-type activities of Rural Water District No. 7, Washington County, Copan, Oklahoma, as of and for the year ended December 31, 2010, which collectively comprise Rural Water District No. 7's basic financial statements and have issued my report thereon dated June 15, 2011 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 No. 7, Washington County, Copan, 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 No. 7, Washington County, Copan, Oklahoma's internal control over financial reporting. Accordingly, I do not express an opinion of the effectiveness of Rural Water District No. 7, Washington County, Copan, 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 I consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rural Water District No. 7, Washington County, Copan, 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, the 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
Certified Public Accountant
Bristow, Oklahoma
June 15, 2011