

AUDIT REPORT

RURAL WATER, SEWER, GAS & SOLID
WASTE MANAGEMENT DISTRICT #8
MCINTOSH COUNTY, OKLAHOMA

DECEMBER 31, 2015



KERSHAW CPA & ASSOCIATES, PC

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RURAL WATER, SEWER, GAS & SOLID WASTE MANAGEMENT DISTRICT #8
MCINTOSH COUNTY, OKLAHOMA
DECEMBER 31, 2015

TABLE OF CONTENTS

	<u>PAGE</u>
INTRODUCTORY SECTION:	
BOARD OF DIRECTORS	3
FINANCIAL SECTION:	
INDEPENDENT AUDITOR'S REPORT	4-6
BASIC FINANCIAL STATEMENTS:	
EXHIBIT A STATEMENT OF NET POSITION - MODIFIED CASH BASIS	7
EXHIBIT B STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - MODIFIED CASH BASIS	8
EXHIBIT C STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS	9
NOTES TO THE FINANCIAL STATEMENTS	10-19
SCHEDULE 1 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	20
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	20
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	21-22
REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE	23-25
SUMMARY OF FINDINGS AND QUESTIONED COSTS	26-27
SUMMARY STATUS OF PRIOR AUDIT FINDINGS	28

RURAL WATER, SEWER, GAS & SOLID WASTE MANAGEMENT DISTRICT #8
MCINTOSH COUNTY, OKLAHOMA
DECEMBER 31, 2015

BOARD OF DIRECTORS

<u>NAME</u>	<u>POSITION</u>
AUDIE URQUHART	CHAIRMAN
BILL CHAFFIN	VICE CHAIRMAN
GARY GRIFFIN	TREASURER
RANDY KNIGHT	SECRETARY
LEE MCCLELLAN	DIRECTOR

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Rural Water, Sewer, Gas & Solid Waste Management District #8
McIntosh County, Oklahoma

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the Rural Water, Sewer, Gas & Solid Waste Management District #8, as of and for the fiscal year ended December 31, 2015, as listed in the table of contents and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1. This includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the 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 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, and in accordance with Oklahoma Statutes. 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 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 accounting

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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 audit opinion.

Basis for Qualified Opinion

The modified cash basis of accounting requires that items, having substantial support in U.S. generally accepted accounting principles, such as capitalizing assets at historical cost and recording depreciation, be recorded in the financial statements. The District has not maintained accurate capital asset records to support the historical cost of past capital asset purchases and the related depreciation. Documentation supporting historical cost and depreciation was not readily available for our review. The amount by which this departure would affect the assets, net position, and expenses of the District is not readily determinable.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the modified cash basis financial position of the Rural Water, Sewer, Gas & Solid Waste Management District #8, McIntosh County, Oklahoma, as of December 31, 2015, and the changes in modified cash basis financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

Other Matters

Supplementary and Other Information

The introductory section listed in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the District. Such additional information has not been subjected to the auditing procedures applied in our audit of the basic financial statements, and accordingly, we do not express an opinion or provide an assurance on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirement for Federal Awards* (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the financial

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statements of the Rural Water, Sewer, Gas & Solid Waste Management District #8, McIntosh County.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 16, 2016, on our consideration of the Rural Water, Sewer, Gas & Solid Waste Management District #8's internal control over financial reporting and on 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 compliance with *Government Auditing Standards* in considering Rural Water, Sewer, Gas & Solid Waste Management District #8's internal control over financial reporting and compliance.

Basis of Accounting

We draw attention to Note 1 of the financial statements that describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Kershaw CPA & Associates, P.C.

Kershaw CPA & Associates, PC

August 16, 2016

RURAL WATER, SEWER, GAS & SOLID WASTE MANAGEMENT DISTRICT #8
MCINTOSH COUNTY, OKLAHOMA
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
DECEMBER 31, 2015

	<u>2015</u>	<u>Memo Only 2014</u>
<u>ASSETS</u>		
<u>Current Assets:</u>		
Cash Accounts	\$ 409,282	\$ 384,893
Savings Accounts	464,223	453,976
Restricted Construction Account	28	29
Restricted Reserve & Depreciation Account	100,666	50,312
Inventory	29,472	24,010
Total Current Assets	1,003,671	913,220
<u>Capital Assets:</u>		
Land	27,945	27,945
Work in Progress	5,465,337	4,263,445
Water Distribution System & Equipment	3,473,554	3,441,066
Less: Accumulated Depreciation	(2,019,656)	(1,922,598)
Total Capital Assets	6,947,181	5,809,859
<u>Other Assets:</u>		
Future Water Rights	210,794	210,794
Total Other Assets	210,794	210,794
TOTAL ASSETS	\$ 8,161,647	\$ 6,933,874
<u>LIABILITIES & NET POSITION</u>		
<u>Current Liabilities:</u>		
Current Portion of Long-Term Debt	\$ 73,040	\$ 59,267
Total Current Liabilities	73,040	59,267
<u>Long-term Liabilities:</u>		
Mortgage Payable	4,597,813	4,559,512
Notes Payable-Future Water Rights	-	-
Less: Current Portion of Long-Term Debt	(73,040)	(59,267)
Total Long-term Liabilities	4,524,773	4,500,246
TOTAL LIABILITIES	4,597,813	4,559,512
<u>Net Position:</u>		
Net investment in capital assets	2,349,368	1,250,346
Restricted	464,223	453,976
Unrestricted	750,243	670,039
TOTAL NET POSITION	3,563,833	2,374,361
TOTAL LIABILITIES & NET POSITION	\$ 8,161,647	\$ 6,933,874

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

**RURAL WATER, SEWER, GAS & SOLID WASTE MANAGEMENT DISTRICT #8
MCINTOSH COUNTY, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - MODIFIED CASH BASIS
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2015**

	2015	Memo Only 2014
<u>Operating Revenue:</u>		
Water Sales	\$ 823,425	\$ 839,833
Other Revenues	57,890	57,054
Total Operating Revenue	881,316	896,886
<u>Operating Expenses:</u>		
Operating Supplies	94,647	77,711
Salaries & Payroll Tax	242,986	241,905
Automotive	18,470	17,050
Repairs & Maintenance	23,253	9,029
Utilities	37,448	34,412
Office Supplies and Postage	24,202	19,129
Insurance	120,055	111,274
Professional Fees	5,200	3,000
Contracted Services	-	-
Dues & Fees	25,539	20,828
Training	2,893	784
Miscellaneous	3,139	1,049
Water Storage	1,691	6,638
Depreciation Expense	97,057	93,809
Total Operating Expenses	696,580	636,618
Operating Income (Loss)	184,735	260,268
Other Revenues and (Expenses):		
Interest Income	1,689	1,588
Interest Expense	(127,310)	(61,894)
Total Other Revenues and (Expenses)	(125,621)	(60,306)
Net Income (Loss) Before Contributions	59,114	199,962
Capital Contributions - Grants	1,097,733	-
Capital Contributions - Memberships	32,624	37,002
Change in Net Position	1,189,472	236,964
Total Net Position, Beginning of Year	2,374,361	2,137,397
Total Net Position, Prior Year Adjustment	-	-
Total Net Position, End of Year	\$ 3,563,833	\$ 2,374,361

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

**RURAL WATER, SEWER, GAS & SOLID WASTE MANAGEMENT DISTRICT #8
MCINTOSH COUNTY, OKLAHOMA
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2015**

	<u>2015</u>	<u>Memo Only 2014</u>
<u>Cash Flows from Operating Activities:</u>		
Cash Receipts from Customers	\$ 881,316	\$ 896,886
Payments to Suppliers for Goods & Services	(361,999)	(308,752)
Payments to Employees & Laborers	(242,986)	(241,905)
Net Cash Provided (Used) by Operating Activities	<u>276,331</u>	<u>346,229</u>
<u>Cash Flows from Capital & Related Financing Activities:</u>		
Additions to Capital Assets	(1,234,380)	(3,962,646)
Capital Contributions - Memberships	32,624	37,002
Capital Contributions - Grants	1,097,733	-
Loan Proceeds	109,555	3,961,374
Principal paid on Debt	(71,254)	(842,045)
Interest paid on Debt	(127,310)	(61,894)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(193,032)</u>	<u>(868,209)</u>
<u>Cash Flows from Investing Activities:</u>		
Interest Income	1,689	1,588
Net Cash Provided (Used) by Investing Activities	<u>1,689</u>	<u>1,588</u>
Net Increase (Decrease) in Cash and Cash Equivalents	84,989	(520,392)
Cash & Cash Equivalents, Beginning of Year	889,210	1,409,602
Cash & Cash Equivalents, Prior Year Adjustment	-	-
Cash & Cash Equivalents, End of Year	<u>\$ 974,199</u>	<u>\$ 889,210</u>
<u>Reconciliation of operating income (loss) to net cash provided operating activities:</u>		
Operating Income (Loss)	\$ 184,735	\$ 260,268
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation	97,057	93,809
(Increase)Decrease in Inventory	(5,462)	(7,847)
Net Cash Provided (Used) by Operating Activities	<u>\$ 276,331</u>	<u>\$ 346,229</u>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

RURAL WATER, SEWER, GAS & SOLID WASTE MANAGEMENT DISTRICT #8
MCINTOSH COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES & OPERATIONS

As discussed further in Note 1.C, these financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) established by the Governmental Accounting Standards Board (GASB). These modified cash-basis financial statements generally meet the presentation and disclosure requirements applicable to GAAP, in substance, but are limited to the elements presented in the financial statements and the constraints of the measurement and recognition criteria of the modified cash basis of accounting.

A. Organization & Reporting Entity

The District was organized to sell water to its members. It is not a component unit as defined by Governmental Accounting Standards Board Statement No. 14.

B. Basis of Presentation

The accounts of the District are organized on the basis of proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the District's assets, liabilities, net assets, revenues and expenses. Enterprise Funds account for activities (1) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (2) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (3) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

C. Measurement Focus and Basis of Accounting

Measurement Focus

The District utilizes an 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

RURAL WATER, SEWER, GAS & SOLID WASTE MANAGEMENT DISTRICT #8
MCINTOSH COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

net position (or cost recovery), net financial position, and cash flows. All assets, deferred outflows, liabilities, and deferred inflows (whether current or noncurrent or financial or nonfinancial) associated with their activities are generally reported within the limitations of the modified cash basis of accounting.

Basis of Accounting

The financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than GAAP as established by GASB. This basis of accounting involves modifications to the cash basis of accounting to report in the statements of net position cash transactions or events that provide a benefit or result in an obligation that covers a period greater than the period in which the cash transaction or event occurred. Such reported balances include investments, capital assets and related depreciation, and short-term and long-term liabilities arising from cash transactions or events.

This modified cash basis of accounting differs from GAAP primarily because certain assets and their related revenues (such as accounts receivable and revenue billed or provided services not yet collected and other accrued revenue and receivables) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid and other accrued expenses and liabilities) are not recorded in these financial statements. In addition, other economic assets, deferred outflows, liabilities, and deferred inflows that do not arise from a cash transaction or event are not reported, and the measurement of reported assets and liabilities does not involve adjustment to fair value.

If the District utilized the basis of accounting recognized as generally accepted in the United States, the fund financial statements for proprietary fund types would use the accrual basis of accounting.

RURAL WATER, SEWER, GAS & SOLID WASTE MANAGEMENT DISTRICT #8
MCINTOSH COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

D. Financial Position

Cash and Investments

For purposes of these financial statements, the District considers cash and cash equivalents to be currency on hand and demand deposits with banks. There were no non-monetary transactions.

Inventory

Inventory on hand is valued at cost on the first in first out method.

Capital Assets (Property, Plant & Equipment)

The straight-line method of depreciation is used in computing annual depreciation on the plant and equipment.

Capitalization Policy - Purchases of capital items in excess of \$2,000.00 that increase the capacity or operation efficiency or extend the useful life of any asset are capitalized. Repairs and maintenance are expensed as incurred.

Income Taxes

The District is conducting its affairs as a non-profit organization and has made no provisions for federal income tax.

Long-Term Debt

Long-term debt is reported at face value, net of applicable discounts and deferred loss on refunding. Costs related to the issuance of debt are deferred and amortized over the lives of various debt issues.

Equity Classification

Equity is classified as net position and displayed in three components:

1. Net investment in capital assets – Consists of capital assets including restricted capital assets, net of

RURAL WATER, SEWER, GAS & SOLID WASTE MANAGEMENT DISTRICT #8
MCINTOSH COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets and adjusted for any deferred inflows and outflows of resources attributable to capital assets and related debt.

2. Restricted – Consists of restricted assets reduced by liabilities and deferred inflows or resources related to those assets, with restriction constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted – Net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

It is the District's policy to first use restricted net resources prior to the use of unrestricted net resources when an expense is incurred for purposes for which both restricted and unrestricted net resources are available.

Revenues, expenditures & expenses

Operating revenues and expenses for proprietary funds result from providing services and producing and delivering goods and/or services. They also include all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

Use of Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting used by the District requires management to make estimates and assumptions that affect certain reported amounts and disclosures; accordingly, actual results could differ from those estimates.

Compensated Absences

Compensated leave is expensed during the period in which the employee takes such leave.

RURAL WATER, SEWER, GAS & SOLID WASTE MANAGEMENT DISTRICT #8
MCINTOSH COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

Memorandum Totals

The "Memorandum Only" captions above the total columns mean that totals are presented for overview information purposes only.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

As a local government unit, the District is subject to various federal, state, and local laws and contractual regulations. In accordance with Government Auditing Standards, the auditor has issued a report on his consideration of the District's internal control over financial reporting and tested its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in compliance with Government Auditing Standards and should be read in conjunction with this report in considering the results of the audit.

Deficit Fund Balance or Retained Earnings

As indicated in the financial statements, there are no fund balance or retained earnings deficits for the District for this fiscal year.

NOTE 3 - CASH AND INVESTMENTS

Custodial Credit Risk

At December 31, 2015, the District held deposits of approximately \$974,199 at financial institutions. The District's cash deposits, including interest-bearing certificates of deposit are covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the District or by its agent in the District's name.

Investment Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk

The District has no policy that limits its investment choices other than the limitation of state law as follows:

RURAL WATER, SEWER, GAS & SOLID WASTE MANAGEMENT DISTRICT #8
 MCINTOSH COUNTY, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2015

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers' acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

NOTE 4 - CAPITAL ASSETS

Capital asset activity, for the fiscal year ended December 31, 2015, was as follows:

	Balance at Dec. 31, 2014	Additions	Deductions	Balance at Dec. 31, 2015
Land	\$ 27,945	\$ -	\$ -	\$ 27,945
Water System & Equipment	3,441,066	32,488	-	3,473,554
Work-in-progress	4,263,445	1,201,892	-	5,465,337
Subtotal	7,732,457	1,234,380	-	8,966,837
Less: Accum. Depr.	(1,922,598)	(97,057)	-	(2,019,656)
Total Capital Assets (Net of Depreciation)	<u>\$ 5,809,859</u>	<u>\$ 1,137,323</u>	<u>\$ -</u>	<u>\$ 6,947,181</u>

The current year capital asset addition included the system improvement project, a John Deere tractor and a utility trailer.

NOTE 5 - MORTGAGES PAYABLE

The District has a note (USDA RD #91-01, dated December 30, 2013, due to USDA Rural Development in the original amount of \$4,024,000 with a fixed interest rate of 2.75% with 480 monthly payments of principal

RURAL WATER, SEWER, GAS & SOLID WASTE MANAGEMENT DISTRICT #8
 MCINTOSH COUNTY, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2015

and interest of \$13,843.00 beginning January 28, 2014. The note is secured by the system's assets and revenues. As of December 31, 2014, all of the loan proceeds have been received for this loan.

The District has a note (USDA RD #91-03), dated December 30, 2013, due to USDA Rural Development in the original amount of \$786,000 with a fixed interest rate of 2.75% with 480 monthly payments of principal and interest of \$2,704.00 beginning January 28, 2014. The note is secured by the system's assets and revenues. As of December 31, 2015, all of the loan proceeds have been received for this loan.

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended December 31, 2015:

	Balance at December 31, 2014	Additions	Deductions	Balance at December 31, 2015
Mortgage - USDA RD 91-01	\$ 3,912,464	\$ -	\$ (59,269)	\$ 3,853,194
Mortgage - USDA RD 91-03	\$ 647,049	\$ 109,555	\$ (11,984)	\$ 744,619
Total Long-Term Debt	<u>\$ 4,559,512</u>	<u>\$ 109,555</u>	<u>\$ (71,254)</u>	<u>\$ 4,597,813</u>

Debt Services Requirements to Maturity

Year Ending December 31,	Note Payable - RD #91-01		Total
	Principal	Interest	
2016	\$ 60,917	\$ 105,199	\$ 166,116
2017	62,614	103,502	166,116
2018	64,357	101,759	166,116
2019	66,150	99,966	166,116
2020	67,992	98,124	166,116
2021-2025	369,439	461,141	830,580
2026-2030	423,828	406,752	830,580
2031-2035	486,225	344,355	830,580
2036-2040	557,807	272,773	830,580
2041-2045	639,929	190,652	830,580
2046-2050	734,140	96,440	830,580
2051-2052	319,797	9,159	328,956
Total	<u>\$ 3,853,194</u>	<u>\$ 2,289,822</u>	<u>\$ 6,143,016</u>

RURAL WATER, SEWER, GAS & SOLID WASTE MANAGEMENT DISTRICT #8
 MCINTOSH COUNTY, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2015

Year Ending December 31,	Note Payable - RD #91-03		Total
	Principal	Interest	
2016	\$ 12,123	\$ 20,325	\$ 32,448
2017	12,461	19,987	32,448
2018	12,808	19,640	32,448
2019	13,164	19,284	32,448
2020	13,531	18,917	32,448
2021-2025	73,522	88,718	162,240
2026-2030	84,345	77,895	162,240
2031-2035	96,763	65,477	162,240
2036-2040	111,008	51,232	162,240
2041-2045	127,351	34,889	162,240
2046-2050	146,100	16,140	162,240
2051-2052	41,443	794	42,238
Total	<u>\$ 744,619</u>	<u>\$ 433,299</u>	<u>\$ 1,177,918</u>

NOTE 6 - RETIREMENT & DEFERRED COMPENSATION PLAN

Until November of 2014, the District offered employees a 457 retirement plan. The District matched employee contributions up to 3%. Total contributions for the year were \$0, this includes both employee & employer contributions. The plan is through Southern Financial Group-One America, 301 West Main, Suite 520, Ardmore, Oklahoma 73401.

In November 2014, employee retirement changed to a Simple IRA with Edward Jones. Employees are allowed to contribute up to 5% and the District matches up to 3%. Total contributions for the year were \$11,200.57, this includes both employee & employer contributions. The plan is through Edward Jones, 312 S. First St., Eufaula, Oklahoma 74432.

NOTE 7 - FUND EQUITY

As described in Note 1 above, equity is classified as net position and displayed in three components:

1. Net investment in capital assets
2. Restricted
3. Unrestricted

RURAL WATER, SEWER, GAS & SOLID WASTE MANAGEMENT DISTRICT #8
 MCINTOSH COUNTY, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2015

NOTE 8 -CONTINGENCIES

Litigation

According to management there were no known contingent liabilities at December 31, 2015, which would have a material effect on the financial statements.

Federally Assisted Programs

In the normal course of operations, the District participates in various federal or state/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability of reimbursement that may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

NOTE 9 - SUBSEQUENT EVENTS

The District did not have any subsequent events through August 16, 2016, which is the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending December 31, 2015.

NOTE 10 - IMPROVEMENT PROJECT

The total estimated costs for the water project are as follows:

Construction	\$4,931,118
Engineering	292,500
Resident Inspection	228,600
Legal fees	52,456
Contingencies	246,436
O&M Manual, etc.	28,000
ODEQ Fee	3,790
Refinancing	<u>803,400</u>
Total	\$6,586,300

The project funding is planned from the following sources and amounts:

<u>Project Funding Sources</u>	<u>Funding Amounts</u>
Applicant Contributions	\$ 220,000
Rural Development Loan	4,024,000
Rural Development Grant	791,300

RURAL WATER, SEWER, GAS & SOLID WASTE MANAGEMENT DISTRICT #8
MCINTOSH COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

Rural Development Loan	786,000
Rural Development Grant	640,000
ODEQ Eng Grant	<u>125,000</u>
Total All Sources	\$6,586,300

**RURAL WATER, SEWER, GAS & SOLID WASTE MANAGEMENT DISTRICT #8
MCINTOSH COUNTY, OKLAHOMA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2015**

<u>Federal Grantor/ Program Title</u>	<u>Federal CFDA No.</u>	<u>Award Amount</u>	<u>Federal Expenditures</u>
USDA Rural Development:			
Loan (91-03):			
Water and Waste Disposal Systems for Rural Communities	10.760	\$ 786,000	\$ 109,555
Grant:			
Water and Waste Disposal Systems for Rural Communities	10.760	\$ 791,300	\$ 791,300
Water and Waste Disposal Systems for Rural Communities	10.760	\$ 640,000	\$ 301,037
Total		<u><u>\$ 2,217,300</u></u>	<u><u>\$ 1,201,892</u></u>

**RURAL WATER, SEWER, GAS & SOLID WASTE MANAGEMENT DISTRICT #8
MCINTOSH COUNTY, OKLAHOMA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2015**

NOTE 1 - GENERAL

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards of the McIntosh County RWSG&SWMD #8 (the "District").

The District's reporting entity is defined in Note 1 to the District's basic financial statements. Federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the schedule.

NOTE 2 - BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards is present using the modified cash basis of accounting, which is described in Note 1 to the District's basic financial statements.

NOTE 3 - RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

Federal awards revenues are reported in the District's basic financial statements as follows:

Federal Sources

General	<u>\$ 1,201,892</u>
Total	<u><u>\$ 1,201,892</u></u>

NOTE 4 - RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Amounts reported in the accompanying schedule agree with the amounts reported in the related federal financial reports except for changes made to reflect amounts in accordance with the modified cash basis of accounting.

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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, Sewer, Gas & Solid Waste Management District #8
McIntosh County, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States, and in accordance with Oklahoma Statutes, the modified cash basis financial statements of the Rural Water, Sewer, Gas & Solid Waste Management District #8, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles, and have issued our report thereon dated August 16, 2016, which was qualified for the improper capital asset recordkeeping.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Rural Water, Sewer, Gas & Solid Waste Management District #8'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 Rural Water, Sewer, Gas & Solid Waste Management District #8's internal control. Accordingly, we do not express an opinion on the effectiveness of Rural Water, Sewer, Gas & Solid Waste Management District #8'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 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.

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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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify certain deficiencies in internal control described in the accompanying Schedule of Findings that we consider to be significant deficiencies. Those deficiencies are listed as Item 15-01.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Rural Water, Sewer, Gas & Solid Waste Management District #8's financial statements are free of material misstatement, we performed tests of 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*.

Rural Water, Sewer, Gas & Solid Waste Management District #8's Response to Findings

Rural Water, Sewer, Gas & Solid Waste Management District #8's response to the findings identified in our audit is described in the accompanying Schedule of Findings. Rural Water, Sewer, Gas & Solid Waste Management District #8's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kershaw CPA & Associates, P.C.

Kershaw CPA & Associates, PC
August 16, 2016

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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors
Rural Water, Sewer, Gas & Solid Waste Management District #8
McIntosh County, Oklahoma

Report on Compliance for Each Major Federal Program

We have audited the Rural Water, Sewer, Gas & Solid Waste Management District #8, McIntosh County, Oklahoma's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Rural Water, Sewer, Gas & Solid Waste Management District #8, McIntosh County's major federal programs for the year ended December 31, 2015. The Rural Water, Sewer, Gas & Solid Waste Management District #8, McIntosh County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Rural Water, Sewer, Gas & Solid Waste Management District #8, McIntosh County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and in accordance with Oklahoma Statutes. Those standards and the Uniform Guidance 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

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have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Rural Water, Sewer, Gas & Solid Waste Management District #8, McIntosh County's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

As described in Note 1, these financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on Rural Water, Sewer, Gas & Solid Waste Management District #8, McIntosh County's compliance.

Opinion on Each Major Federal Program

In our opinion, the Rural Water, Sewer, Gas & Solid Waste Management District #8, McIntosh County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2015.

Report on Internal Control Over Compliance

Management of the Rural Water, Sewer, Gas & Solid Waste Management District #8, McIntosh County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Rural Water, Sewer, Gas & Solid Waste Management District #8, McIntosh County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, 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 Rural Water, Sewer, Gas &

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Solid Waste Management District #8, McIntosh County's internal control over compliance.

A deficiency in 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 to detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Kershaw CPA & Associates, P.C.
Kershaw, CPA & Associates, PC

August 16, 2016

RURAL WATER, SEWER, GAS & SOLID WASTE MANAGEMENT DISTRICT #8
 MCINTOSH COUNTY, OKLAHOMA
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED DECEMBER 31, 2015

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

Type of auditor's report issue: Qualified

Internal control over financial reporting:

Material weaknesses identified? yes no

Significant deficiencies identified that are not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted? yes no

FEDERAL AWARDS

Internal control over major programs:

Material weaknesses identified? yes no

Significant deficiencies identified that are not considered to be material weaknesses? yes none reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? yes no

Identification of major programs:
 #10.760 Water and Waste Disposal Systems for Rural Communities

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? yes no

SECTION II - FINANCIAL STATEMENT FINDINGS

Item 15-01: General Ledger

Criteria: Internal control refers to the methods and procedures used to provide reasonable assurance regarding the achievement of objectives in the following categories: Safeguarding assets, Ensuring validity of financial records and reports, Promoting adherence to policies, procedures, regulations and laws, and Promoting effectiveness and efficiency of operations. Internal control also

RURAL WATER, SEWER, GAS & SOLID WASTE MANAGEMENT DISTRICT #8
MCINTOSH COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2015

refers to how an entity processes, summarizes and records the financial transactions. In general terms, internal controls are simply good business practices.

Condition: Management did not maintain an adequate, effective double-entry general ledger system during the audit year.

Cause/Effect: The data file indicated that there was a failure to maintain some records in an accurate manner. The financial statements may contain misstatements and omit financial information. While classification errors are possible, other evidence including bank statements and previous year's comparisons were used in audit procedures which show that if there were any discrepancy in total revenues or expenses it is of an immaterial amount.

Recommendation: The District needs to upgrade accounting software programs to a double-entry system which will provide a better audit trail of financial transactions. The Town has now implemented using QuickBooks to maintain a double-entry general ledger system.

Response: The District has expressed interest in using QuickBooks to maintain a double-entry general ledger system.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

RURAL WATER, SEWER, GAS & SOLID WASTE MANAGEMENT DISTRICT #8
MCINTOSH COUNTY, OKLAHOMA
SUMMARY STATUS OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2015

There were no audit findings in the year ending December 31, 2014.