

AUDIT REPORT

MUSKOGEE COUNTY RURAL WATER DISTRICT #7
MUSKOGEE COUNTY, OKLAHOMA

DECEMBER 31, 2015

KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

WEB: KERSHAWCPA.COM
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

MUSKOGEE COUNTY RURAL WATER DISTRICT #7
MUSKOGEE 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	7
EXHIBIT B STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION	8
EXHIBIT C STATEMENT OF CASH FLOWS	9
NOTES TO THE FINANCIAL STATEMENTS	10-17
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>	18-19
SCHEDULE OF FINDINGS	20
OTHER SUPPLEMENTARY INFORMATION:	
SCHEDULE OF WATER RATES & CUSTOMERS	21

MUSKOGEE COUNTY RURAL WATER DISTRICT #7
MUSKOGEE COUNTY, OKLAHOMA
DECEMBER 31, 2015

BOARD OF DIRECTORS

<u>NAME</u>	<u>POSITION</u>	<u>TERM EXPIRATION</u>
Terry Swanner 1966 Cedar Bluff Road Fort Gibson, OK 74434	Chairman	March 2017
Doug Dortch 1589 N. County Line Rd Fort Gibson, OK 74434	Vice-Chairman	March 2016
Gabe Mosteller 115 Spurlock Drive Fort Gibson, OK 74434	Secretary/Treasurer	March 2016
Tony Sheets 2002 Cedar Bluff Road Fort Gibson, OK 74434	Member	March 2017
Jeremy Clinkenbeard 116 Leaning Tree Road Fort Gibson, OK 74434	Member	March 2018

KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

WEB: KERSHAWCPA.COM
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Muskogee County Rural Water District #7
Muskogee County, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of Muskogee County Rural Water District #7, 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 entity'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 entity'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 estimates made by management,

KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

WEB: KERSHAWCPA.COM
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Muskogee County Rural Water District #7 as of December 31, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary and Other Information

The introductory and the other supplementary information sections listed in the accompanying table of contents are presented for the purpose of additional analysis and are 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 and assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 29, 2016, on our consideration of the Muskogee County Rural Water District #7'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

KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

WEB: KERSHAWCPA.COM
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Muskogee County Rural Water District #7's internal control over financial reporting and compliance.

Kershaw CPA & Associates, P.C.

Kershaw, CPA & Associates, PC

February 29, 2016

**MUSKOGEE COUNTY RURAL WATER DISTRICT #7
MUSKOGEE COUNTY, OKLAHOMA
STATEMENT OF NET POSITION
DECEMBER 31, 2015**

	2015	Memorandum Only 2014
<u>ASSETS</u>		
<u>Current Assets:</u>		
Cash and cash equivalents	\$ 697,304	\$ 615,539
Accounts Receivable - water	35,227	33,823
Accounts Receivable - benefit unit sales	-	-
Inventory	22,176	23,593
Prepaid Insurance	6,410	5,762
Utility Deposit	100	100
Total Current Assets	761,216	678,818
<u>Capital Assets:</u>		
Land	10,000	10,000
Building	68,101	68,101
Water system and lines (Note 1)	1,236,353	1,236,353
Office furniture & equipment	18,160	18,160
	1,332,613	1,332,613
Less: Accumulated Depreciation	(673,821)	(647,376)
Total Capital Assets	658,792	685,237
TOTAL ASSETS	\$ 1,420,008	\$ 1,364,055
<u>LIABILITIES & NET POSITION</u>		
<u>Current Liabilities:</u>		
Accrued Payroll Taxes	\$ 2,391	\$ 2,324
Accounts Payable	523	680
Current Portion of Long-Term Debt	9,723	9,168
Total Current Liabilities	12,637	12,172
<u>Long-Term Liabilities:</u>		
Note Payable - CRG	41,920	51,088
Less: Current Portion of Long-Term Debt	(9,723)	(9,168)
Total Long-Term Liabilities	32,196	41,920
TOTAL LIABILITIES	44,834	54,092
<u>NET POSITION:</u>		
Net investment in capital assets	616,873	634,149
Restricted for debt service	-	-
Unrestricted	758,302	675,814
TOTAL NET POSITION	1,375,175	1,309,963
TOTAL LIABILITIES AND NET POSITION	\$ 1,420,008	\$ 1,364,055

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

EXHIBIT B

**MUSKOGEE COUNTY RURAL WATER DISTRICT #7
MUSKOGEE COUNTY, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES & CHANGES IN NET POSITION
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2015**

	2015	Memorandum Only 2014
<u>OPERATING REVENUES:</u>		
Water Sales	\$ 411,353	\$ 408,309
Benefit Unit Sales	26,000	32,000
Miscellaneous Income	-	-
TOTAL OPERATING REVENUES	437,353	440,309
<u>OPERATING EXPENSES:</u>		
Water Purchased	161,505	164,574
Auto Expense	-	-
Contract Labor	40,905	45,660
Repairs & Maintenance	7,105	4,588
Insurance	9,882	9,604
Materials	13,453	17,619
Miscellaneous	2,399	2,093
Office Supplies & Expenses	4,049	2,965
Payroll Tax Expense	6,579	6,307
Postage	4,308	4,141
Professional Fees	2,098	3,220
Telephone	1,746	1,488
Utilities	10,417	11,258
Wages	81,557	77,550
Bad Debt Expense	-	-
Depreciation	26,445	30,394
TOTAL OPERATING EXPENSES	372,448	381,460
NET OPERATING INCOME (LOSS)	64,905	58,850
<u>OTHER REVENUES (EXPENSES):</u>		
Interest Income	3,075	3,127
Interest Expense	(2,768)	(3,293)
Insurance Proceeds	-	-
TOTAL OTHER REVENUES (EXPENSES)	307	(166)
NET INCOME (LOSS) BEFORE CONTRIBUTIONS	65,212	58,684
CAPITAL CONTRIBUTIONS	-	44,654
CHANGE IN NET POSITION	65,212	103,337
TOTAL NET POSITION, Beginning of Year	1,309,963	1,206,625
TOTAL NET POSITION, Prior Year Adjustment	-	-
TOTAL NET POSITION, End of Year	\$ 1,375,175	\$ 1,309,963

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

EXHIBIT C

**MUSKOGEE COUNTY RURAL WATER DISTRICT #7
MUSKOGEE COUNTY, OKLAHOMA
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2015**

	2015	Memo Only 2014
<u>Cash Flows from Operating Activities:</u>		
Receipts from Customers	\$ 435,950	\$ 437,436
Payments to Suppliers & Laborers for Goods & Services	(345,324)	(349,917)
Receipts of Customer Utility Deposits, Net of Refunds	-	-
Net Cash Provided (Used) by Operating Activities	90,625	87,520
<u>Cash Flows from Capital & Related Financing Activities:</u>		
Additions to Capital Assets	-	(69,702)
Capital Contributions	-	44,654
Proceeds from long-term debt	-	-
Principal paid on long-term debt	(9,168)	(8,644)
Interest paid on Debt	(2,768)	(3,293)
Net Cash Provided (Used) by Capital & Related Financing Activities	(11,937)	(36,985)
<u>Cash Flows from Investing Activities:</u>		
Interest Income	3,075	3,127
Net Cash Provided (Used) by Investing Activities	3,075	3,127
Net Increase (Decrease) in Cash and Cash Equivalents	81,764	53,661
Cash & Cash Equivalents, Beginning of Year	615,539	561,878
Cash & Cash Equivalents, Prior Year Adjustment	-	-
Cash & Cash Equivalents, End of Year	\$ 697,304	\$ 615,539
<u>Reconciliation of operating income (loss) to net cash provided operating activities:</u>		
Operating Income (Loss)	\$ 64,905	\$ 58,850
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation	26,445	30,394
(Increase)Decrease in Accounts Receivable	(1,404)	(2,873)
(Increase)Decrease in Inventory	1,417	673
(Increase)Decrease in Prepaid Insurance	(647)	201
Increase(Decrease) in Accounts Payable	(157)	24
Increase(Decrease) in Payroll Taxes Payable	67	252
Net Cash Provided (Used) by Operating Activities	\$ 90,625	\$ 87,520

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

MUSKOGEE COUNTY RURAL WATER DISTRICT #7
MUSKOGEE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES

Organization & Reporting Entity

Muskogee County Rural Water District #7 is incorporated as a non-profit corporation under the Oklahoma Rural Water, Sewer, Gas and Solid Waste Management District Act (82 Okla. Stat. 1324.1 - 1324.26). At the annual meeting each year the participating members elect a Board of Directors consisting of five members. The Board elects a Chairman, Vice-Chairman, and Secretary and Treasurer from their members. More than one person may hold the offices of Secretary and Treasurer. The Board may employ a manager to manage the day-to-day activities of the District.

Basis of Presentation

The District is accounted for within the framework of enterprise fund accounting. Enterprise funds are used to account for operations that are operated in a manner similar to private business enterprises wherein the intent of the District's Board of Directors is to recover the cost of providing goods and services through user charges.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting. Revenues are recognized when earned and expenses when incurred.

Budgetary Data

In accordance with Article 9 of the District's By-Laws, the District prepares an annual budget for internal bookkeeping purposes.

Assets, Liabilities, & Equity

Cash & Cash Equivalents

Cash is comprised of deposits in demand deposit checking accounts and certificates of deposits. For the purpose of the statement of cash flows, the District considers all highly liquid assets, including restricted cash, to be cash equivalents.

MUSKOGEE COUNTY RURAL WATER DISTRICT #7
MUSKOGEE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

Allowance for Uncollectible Accounts

No provision for an allowance for uncollectible accounts has been made as all accounts deemed uncollectible are written off against revenues upon Board approval.

Inventory

Inventory is valued using the lesser of cost or market. Obsolete inventory is written off at the time it is determined to be obsolete.

Capital Assets

Capital assets are stated at the cost and depreciation has been computed using the straight-line method based on the estimated useful lives of the assets as follows:

Water district facilities	40 to 50 years
Water district equipment	5 to 10 years
Office equipment	3 to 5 years

The dollar threshold for capitalization has been set at \$500.00.

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 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.

MUSKOGEE COUNTY RURAL WATER DISTRICT #7
MUSKOGEE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

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.

Governmental Accounting Standards Board Statement No. 34

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. Certain of the significant changes in the Statement include the following:

1. For the first time the financial statement should include:
 - a. A Management Discussion and Analysis (MD&A) section providing analysis of the District's overall financial position and results of operations. However, the District has chosen not to present the required MD&A for the current year.
 - b. Financial statements prepared using full accrual accounting for all of the District's activities, except for including the General capital assets or infrastructure (lines, pump stations, etc.).

MUSKOGEE COUNTY RURAL WATER DISTRICT #7
MUSKOGEE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

2. A change in the fund financial statements to focus on major funds.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements). The District has elected to implement the general provisions of the Statement and report infrastructure acquired after December 31, 2003 as provided by GASB standards.

Income Taxes

As a political subdivision of the State of Oklahoma, the District is exempt from income taxes.

Compensated Absences

The District had no vacation and sick leave policy during the current year.

Use of Estimates

The District made estimates and assumptions required in the preparation of its financial statements on the basis of accounting described above that affect certain reported amounts and disclosures accordingly; actual results could differ from those estimates.

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.

MUSKOGEE COUNTY RURAL WATER DISTRICT #7
MUSKOGEE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

Finance-related Legal & Contractual Provisions

The District does not have any loans which would require reserve accounts or budget preparation.

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 \$697,304 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:

- 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

MUSKOGEE COUNTY RURAL WATER DISTRICT #7
MUSKOGEE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

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 - RESTRICTED ASSETS

The District has no restricted assets.

NOTE 5 - 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	\$ 10,000	\$ -	\$ -	\$ 10,000
Building	68,101	-	-	68,101
Water system & lines	1,236,353	-	-	1,236,353
Office Furniture & Equipment	18,160	-	-	18,160
Subtotal	1,332,613	-	-	1,332,613
Less: Accum. Depr.	(647,376)	(26,445)	-	(673,821)
Total Capital Assets				
(Net of Depreciation)	<u>\$ 685,237</u>	<u>\$ (26,445)</u>	<u>\$ -</u>	<u>\$ 658,792</u>

NOTE 6 - LONG-TERM DEBT

The District has a note payable, dated May 18, 2010, to Community Resource Group, Inc. (CRG) in the original amount of \$90,000.00. The purpose of the loan is for replacing and extending existing water lines. The loan includes interest at 5.9% for a period of ten years maturing on May 18, 2020, with monthly payments due of \$994.71. Collateral for the loan is a pledge of District Revenue. Repayment began in June 2010.

Changes in Long-Term Debt

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

MUSKOGEE COUNTY RURAL WATER DISTRICT #7
MUSKOGEE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

	Balance at December 31, 2014	Additions	Deductions	Balance at December 31, 2015
Notes Payable	\$ 51,088	\$ -	\$ (9,168)	\$ 41,920
Total Long-Term Debt	<u>\$ 51,088</u>	<u>\$ -</u>	<u>\$ (9,168)</u>	<u>\$ 41,920</u>

Debt Services Requirements to Maturity

The annual debt service requirements to maturity, including principal and interest, for long-term debt, as of December 31, 2015, are as follows:

Year Ended December 31,	Principal	Interest	Annual Payment	
2016	\$ 9,723	\$ 2,213	\$ 11,937	
2017	10,313	1,624	11,937	
2018	10,938	999	11,937	
2019	10,946	335	11,282	
2020	-	-	-	
Total	<u>\$ 41,920</u>	<u>\$ 5,171</u>	<u>\$ 47,091</u>	

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

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

MUSKOGEE COUNTY RURAL WATER DISTRICT #7
MUSKOGEE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

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 - WATER PURCHASES

The District purchases its water from the Fort Gibson Utility Authority.

NOTE 10 - RELATED PARTY TRANSACTIONS

The insurance agent, maintenance contract laborer and a member of the Board of Directors are all relatives.

NOTE 11 - SUBSEQUENT EVENTS

The District did not have any subsequent events through February 29, 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.

KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

WEB: KERSHAWCPA.COM
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

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
Muskogee County Rural Water District #7
Muskogee 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 financial statements of the Muskogee County Rural Water District #7, as of and for the year ended December 31, 2015, and the related notes to the financial statements, and have issued our report thereon dated February 29, 2016. Management has omitted the MD&A required by accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Muskogee County Rural Water District #7'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 Muskogee County Rural Water District #7's internal control. Accordingly, we do not express an opinion on the effectiveness of Muskogee County Rural Water District #7'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.

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

KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

WEB: KERSHAWCPA.COM
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

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 Muskogee County Rural Water District #7'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*.

Muskogee County Rural Water District #7's Response to Findings

Muskogee County Rural Water District #7's response to the findings identified in our audit is described in the accompanying Schedule of Findings. Muskogee County Rural Water District #7'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

February 29, 2016

MUSKOGEE COUNTY RURAL WATER DISTRICT #7
MUSKOGEE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS
DECEMBER 31, 2015

Item 15-01: Segregation of Duties

Criteria: A good system of internal control requires a proper segregation of duties to prevent one person from being in a position to authorize, execute, and record the same transaction.

Condition: Due to the size of the District's major areas of internal control, that would be prevalent in a larger District, such segregation of duties is not available for this size operation. Duties are concentrated in the hands of the Manager, who is responsible for all phases of the accounting functions. Because of this lack of division of responsibility, internal control is determined to be weak, and in some instances, non-existent.

Cause/Effect: Due to the limited number of personnel, a breach of internal controls could occur and not be detected in the normal course of operations.

Recommendation: The Board should continue to be actively involved in the operations of the organization.

Response: The Board continues to be actively involved in the operations of the organization.

MUSKOGEE COUNTY RURAL WATER DISTRICT #7
MUSKOGEE COUNTY, OKLAHOMA
SCHEDULE OF WATER RATES AND CUSTOMERS
DECEMBER 31, 2015

Water Rates

0 - 1,500 gallons	=	\$17.20 Minimum Bill
Next 7,000 gallons	=	\$ 6.57 per 1,000 gallons
Next 15,000 gallons	=	\$ 6.77 per 1,000 gallons
Over 23,500 gallons	=	\$ 6.97 per 1,000 gallons

Total Gallons Pumped	57,857,400
----------------------	------------

Total Gallons Sold	48,406,600
--------------------	------------

Percentage of Loss	16.33%
--------------------	--------

Customers

The Muskogee County Rural Water District #7 had 836 customers at the close of this fiscal year.

Current membership/tap fee \$2,000 per meter sign-up.