

BRYAN COUNTY RURAL WATER DISTRICT #7  
BENNINGTON, OKLAHOMA  
FINANCIAL STATEMENTS AND  
AUDITOR'S REPORT THEREON  
FOR THE YEAR ENDING JUNE 30, 2016

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## Independent Auditor's Report

To the Board of Trustees  
Bryan County Rural Water District #7  
Bennington, Oklahoma

### **Report on the Financial Statements**

We have audited the accompanying modified cash-basis financial statements of the business-type activities of Bryan Co. Rural Water District #7, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express opinions 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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, 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 opinions.

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash-basis financial position of the business-type activities of the Bryan Co. Rural Water District #7, as of June 30, 2016, and the respective changes in modified cash-basis financial position, and, where applicable, cash flows thereof for the year then ended in conformity with the basis of accounting described in Note 1.

## **Other Matters**

### **Required Supplementary Information**

Management has omitted the management's discussion and analysis and budgetary comparison information 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.

### **Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated November 12, 2016, on our consideration of the Bryan Co. Rural Water District #7'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 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 Bryan Co. Rural Water District #7'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 opinions are not modified with the respect to this matter.

*Russell + Williams CPAs, P.C.*

Oklahoma City, Oklahoma  
November 12, 2016

Bryan County Rural Water District #7  
Statement of Net Position-Modified Cash Basis  
June 30, 2016

ASSETS	
Cash in bank-unrestricted	\$ 102,359.20
Cash in bank-restricted	<u>128,975.80</u>
Total current assets	231,335.00
Capital assets, net	<u>101,268.00</u>
 TOTAL ASSETS	 <u><u>\$ 332,603.00</u></u>
 LIABILITIES AND NET POSITION	
Customer deposits	<u>3,674.76</u>
Total current liabilities	3,674.76
Notes Payable	<u>196,092.70</u>
Total Liabilities	<u>199,767.46</u>
 NET POSITION	
Net Investment in capital assets	(94,824.70)
Restricted for debt service and maintenance	128,975.80
Unrestricted	<u>98,684.44</u>
Total Net Position	<u>132,835.54</u>
 TOTAL LIABILITIES AND NET POSITION	 <u><u>\$ 332,603.00</u></u>

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

Bryan County Rural Water District #7  
Statement of Revenues Over Expenses and  
Changes in Net Position-Modified Cash Basis  
For the Year Ended June 30, 2016

OPERATING REVENUES	
Water sales	\$ <u>99,596.00</u>
TOTAL OPERATING REVENUES	<u>99,596.00</u>
OPERATING EXPENSES	
Trustee fee	2,980.00
Utilities	10,374.87
Salaries and wages	18,942.40
Maintenance and operations	45,408.37
Legal and accounting	<u>2,600.00</u>
TOTAL OPERATING EXPENSES	<u>80,305.64</u>
OPERATING INCOME (LOSS)	<u>19,290.36</u>
NON-OPERATING REVENUES (EXPENSES)	
Interest revenue	44.38
Interest expense	<u>(817.00)</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(772.62)</u>
NET CHANGE IN NET POSITION	18,517.74
Beginning net position	<u>114,317.80</u>
Ending net position	<u><u>\$ 132,835.54</u></u>

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

Bryan County Rural Water District #7  
Statement of Cash Flows - Modified Cash Basis  
For the Year Ending June 30, 2016

Cash flows from operating activities	
Receipts from customers	\$ 99,640.38
Payments to suppliers	(62,180.24)
Payments to employees	(18,942.40)
Net cash provided by operating activities	<u>18,517.74</u>
Cash flows from capital and related financing activities	
Change in meter deposits	-
Change in Fixed Assets	(101,268.00)
Proceeds from Loans	215,543.70
Principal paid on long term debt	(19,451.00)
Net cash flows from capital and related financing activities	<u>94,824.70</u>
Net increase (decrease) in cash	113,342.44
Cash, Beginning of the Year	<u>117,992.56</u>
Cash, End of the Year	<u><u>\$ 231,335.00</u></u>

*Reconciliation of change in net assets to net cash provided by operations*

Change in Net Position	18,517.74
Adjustments to reconcile change in net position to net cash provided by operating activities	
Depreciation	-
Net cash provided by operating activities	<u><u>\$ 18,517.74</u></u>

BRYAN COUNTY RURAL WATER DISTRICT #7  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The Bryan County Rural Water District #7, Oklahoma (the “District”) was created pursuant to the Rural Water, Sewer and Solid Waste Management Districts Act of Oklahoma (82 O.S. Sec. 1301-1324) by an order of the Board of County Commissioners of Bryan County, Oklahoma. The purpose of the District is providing an adequate water supply to meet the needs of rural residents within the territory of the district.

Cash and Cash Equivalents – Items classified as cash equivalents in the financial statements include temporary investments in bank certificates of deposit, as well as other highly liquid short term investments.

Capital Assets – Capital assets are capitalized at cost for items over \$2,500. Waterlines and facilities are depreciated using the straight-line method over the estimated useful lives of forty years. Depreciation of office building and office equipment is computed over the estimated useful lives of five to twenty years.

Income Taxes – The District is a body politic (corporate and an agency) and legally constituted authority of the State of Oklahoma. Based upon this status, the District should be exempt from federal income taxes and from filing requirements of the Internal Revenue Service. As discussed in Note 5, organizations covered by Section 501(c)(12) of the Internal Revenue Code and subject to imposition of income taxes on income from non-members and (2) subject to filing requirements of the Internal Revenue Service.

Revenue and Expense Recognition – Revenue is recognized when it is collected and expenses are recognized when paid.

Risk Management - The District is exposed to various risks of losses related to torts, theft of, damage to and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The District purchases commercial insurance from commercial insurance companies.

Restricted Cash – Restricted cash consists of funds reserved for debt service and emergency repairs.

NOTE 2 - DEPOSIT COLLATERAL

The cash accounts of the District are required by state law to be secured by collateral pledged by the financial institution and/or FDIC deposit insurance. In accordance with GASB No. 3, deposits are to be classified into the following three categories:

1. Insured or collateralized with securities held by the entity or by its agent or in the entity’s name. (Referred to as category 1)



2. Collateralized with securities held by pledging financial institution's trust department or agent in the entity's name. (Referred to as category 2)
3. Uncollateralized, including any bank balance that is collateralized with securities held by the pledging institution, or by its trust department or agent but not in the entity's name. (Referred to as category 3)

The District's cash accounts would be classified as category 1 for the portion that was insured by FDIC and category 3 for the portion not covered by FDIC.

#### NOTE 3 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Water Distribution System	301,362	101,268	-	402,630
Accumulated Depreciation	(301,362)	-	-	(301,362)
Net Capital Assets	<u>\$ -</u>			<u>\$ -</u>

#### NOTE 4 – NOTES PAYABLE

The District had one note payable with Rural Development. This note carries an interest rate of 2%. This note calls for monthly payments of \$2,252. The proceeds from this loan was used for a new water well. As of June 30, 2016, the balance of this note was \$196,093. The District paid \$19,451 in principal and \$817 in interest payments for the year. Principal required for the next five years and in five year increments until maturity is as follows:

	Principal	Interest	Beginning Balance	\$ 215,544
2016/2017	\$ 23,503	\$ 3,521	Principal Payments	19,451
2017/2018	23,786	3,238	Ending Balance	<u>\$ 196,093</u>
2018/2019	24,267	2,757		
2019/2020	24,756	2,268		
2020/2021	25,256	1,768		
2021/2026	74,525	2,206		
	<u>\$ 196,093</u>	<u>\$ 15,758</u>		

#### NOTE 5 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through November 12, 2016, which is the date the financial statements were issued.

## **Russell & Williams CPA's, P.C.**

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### **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Trustees  
Bryan Co. Rural Water District #7

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, the accompanying modified cash basis financial statements of the business-type activities of Bryan Co. Rural Water District #7, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Bryan Co. Rural Water District #7's basic financial statements, and have issued our report thereon dated November 12, 2016.

The report was a special report on the District's use of a comprehensive basis of accounting other than 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 Bryan Co. 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Bryan Co. Rural Water District #7's internal control. Accordingly, we do not express an opinion on the effectiveness of Bryan Co. 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies. 2016-1 & 2016-2.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Bryan Co. Rural Water District #7's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

### **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.

*Russell + Williams CPAs, P.C.*

Oklahoma City, Oklahoma  
November 12, 2016

## Schedule of Current Findings and Responses

### 2016-1 Customer Deposits (Repeat Finding)

**CONDITION:** During our review of the water metered deposits, we noted that the District was unable to provide a detailed listing of the individual customer deposits that could easily be reconciled to the amount shown on the financial statements.

**CRITERIA:** The liability balance as shown on the financial statements should have a detailed listing supporting the account balance.

**CAUSE OF CONDITION:** The District recently transferred to a computer system listing each customer deposit. Several customer deposits dating back for several years could not be located to enter into the software system.

**EFFECT OF CONDITION:** The account balance is unsupported.

**MANAGEMENT RESPONSE:** The District has made strides toward improved record keeping of account balances. There are additional forms which customers are required to complete which track deposits made as well as additional account information.

### 2016-2 Lack of Segregation of Duties (Repeat Finding)

**CONDITION:** During our review of the internal control structure, we noted that several procedures lacks the control of having duties segregated. We understand that due to the size of the District and number of personnel, many aspects related to segregation of duties cannot be implemented. However, we noted that certain bank accounts required only one signature. Furthermore, the utility billing is performed and collected by the same person.

**CRITERIA:** We believe that internal control procedures would be strengthened by reviewing the individual tasks to determine whether internal control procedures could be improved. We also believe that the District should purchase new utility billing software to help insure that all billings are being done correctly and processed properly.

**CAUSE OF CONDITION:** Limited personnel

**EFFECT OF CONDITION:** Unknown

**MANAGEMENT RESPONSE:** All checks now require two signatures whether there are two signature lines or not. In many cases due to our limited resources, controls will be limited. We will look into getting a utility billing software