

AUDIT REPORT

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

DECEMBER 31, 2016



KERSHAW CPA & ASSOCIATES, PC

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RURAL WATER, SEWER, GAS & SOLID WASTE MANAGEMENT DISTRICT #8
MCINTOSH COUNTY, OKLAHOMA
DECEMBER 31, 2016

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RURAL WATER, SEWER, GAS & SOLID WASTE MANAGEMENT DISTRICT #8
MCINTOSH COUNTY, OKLAHOMA
DECEMBER 31, 2016

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, 2016, 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, 2016, 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 and assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 3, 2017, 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

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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

May 3, 2017

RURAL WATER, SEWER, GAS & SOLID WASTE MANAGEMENT DISTRICT #8
MCINTOSH COUNTY, OKLAHOMA
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
DECEMBER 31, 2016

	<u>2016</u>	<u>Memo Only 2015</u>
<u>ASSETS</u>		
<u>Current Assets:</u>		
Cash Accounts	\$ 395,084	\$ 409,282
Savings Accounts	474,472	464,223
Restricted Construction Account	73	28
Restricted Reserve & Depreciation Account	151,061	100,666
Inventory	28,079	29,472
Total Current Assets	1,048,769	1,003,671
<u>Capital Assets:</u>		
Land	27,945	27,945
Work in Progress	5,844,540	5,465,337
Water Distribution System & Equipment	3,505,349	3,473,554
Less: Accumulated Depreciation	(2,118,246)	(2,019,656)
Total Capital Assets	7,259,589	6,947,181
<u>Other Assets:</u>		
Future Water Rights	210,794	210,794
Total Other Assets	210,794	210,794
TOTAL ASSETS	\$ 8,519,152	\$ 8,161,647
<u>LIABILITIES & NET POSITION</u>		
<u>Current Liabilities:</u>		
Current Portion of Long-Term Debt	\$ 75,074	\$ 73,040
Total Current Liabilities	75,074	73,040
<u>Long-term Liabilities:</u>		
Mortgage Payable	4,524,770	4,597,813
Notes Payable-Future Water Rights	-	-
Less: Current Portion of Long-Term Debt	(75,074)	(73,040)
Total Long-term Liabilities	4,449,696	4,524,773
TOTAL LIABILITIES	4,524,770	4,597,813
<u>Net Position:</u>		
Net investment in capital assets	2,734,819	2,349,368
Restricted	474,472	464,223
Unrestricted	785,091	750,243
TOTAL NET POSITION	3,994,382	3,563,833
TOTAL LIABILITIES & NET POSITION	\$ 8,519,152	\$ 8,161,647

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, 2016**

	2016	Memo Only 2015
<u>Operating Revenue:</u>		
Water Sales	\$ 866,526	\$ 823,425
Other Revenues	51,246	57,890
Total Operating Revenue	<u>917,772</u>	<u>881,316</u>
<u>Operating Expenses:</u>		
Operating Supplies	100,529	94,647
Salaries & Payroll Tax	252,070	242,986
Automotive	18,740	18,470
Repairs & Maintenance	20,771	23,253
Utilities	34,230	37,448
Office Supplies and Postage	39,143	24,202
Insurance	130,376	120,055
Professional Fees	8,345	5,200
Contracted Services	-	-
Dues & Fees	25,870	25,539
Training	1,841	2,893
Miscellaneous	2,492	3,139
Water Storage	1,606	1,691
Depreciation Expense	98,590	97,057
Total Operating Expenses	<u>734,605</u>	<u>696,580</u>
Operating Income (Loss)	<u>183,166</u>	<u>184,735</u>
Other Revenues and (Expenses):		
Interest Income	1,636	1,689
Interest Expense	(125,521)	(127,310)
Gain on Disposal of Assets	7,000	-
Total Other Revenues and (Expenses)	<u>(116,884)</u>	<u>(125,621)</u>
Net Income (Loss) Before Contributions	66,282	59,114
Capital Contributions - Grants	324,103	1,097,733
Capital Contributions - Memberships	40,164	32,624
Change in Net Position	430,549	1,189,472
Total Net Position, Beginning of Year	3,563,833	2,374,361
Total Net Position, Prior Year Adjustment	-	-
Total Net Position, End of Year	<u>\$ 3,994,382</u>	<u>\$ 3,563,833</u>

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, 2016**

	<u>2016</u>	<u>Memo Only 2015</u>
<u>Cash Flows from Operating Activities:</u>		
Cash Receipts from Customers	\$ 917,772	\$ 881,316
Payments to Suppliers for Goods & Services	(382,552)	(361,999)
Payments to Employees & Laborers	(252,070)	(242,986)
Net Cash Provided (Used) by Operating Activities	<u>283,150</u>	<u>276,331</u>
<u>Cash Flows from Capital & Related Financing Activities:</u>		
Additions to Capital Assets	(410,998)	(1,234,380)
Proceeds from Disposal of Capital Assets	7,000	-
Capital Contributions - Memberships	40,164	32,624
Capital Contributions - Grants	324,103	1,097,733
Loan Proceeds	-	109,555
Principal paid on Debt	(73,043)	(71,254)
Interest paid on Debt	(125,521)	(127,310)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(238,295)</u>	<u>(193,032)</u>
<u>Cash Flows from Investing Activities:</u>		
Interest Income	1,636	1,689
Net Cash Provided (Used) by Investing Activities	<u>1,636</u>	<u>1,689</u>
Net Increase (Decrease) in Cash and Cash Equivalents	46,491	84,989
Cash & Cash Equivalents, Beginning of Year	974,199	889,210
Cash & Cash Equivalents, Prior Year Adjustment	-	-
Cash & Cash Equivalents, End of Year	<u>\$ 1,020,690</u>	<u>\$ 974,199</u>
<u>Reconciliation of operating income (loss) to net cash provided operating activities:</u>		
Operating Income (Loss)	\$ 183,166	\$ 184,735
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation	98,590	97,057
(Increase)Decrease in Inventory	1,393	(5,462)
Net Cash Provided (Used) by Operating Activities	<u>\$ 283,150</u>	<u>\$ 276,331</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, 2016

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

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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, 2016

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 not 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

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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, 2016

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, 2016, the District held deposits of approximately \$1,020,690 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:

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- 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, 2016, was as follows:

	Balance at Dec. 31, 2015	Additions	Deductions	Balance at Dec. 31, 2016
Land	\$ 27,945	\$ -	\$ -	\$ 27,945
Water System & Equipment	3,473,554	31,795	-	3,505,349
Work-in-progress	5,465,337	379,203	-	5,844,540
Subtotal	8,966,837	410,998	-	9,377,835
Less: Accum. Depr.	(2,019,656)	(98,590)	-	(2,118,246)
Total Capital Assets (Net of Depreciation)	<u>\$ 6,947,181</u>	<u>\$ 312,407</u>	<u>\$ -</u>	<u>\$ 7,259,589</u>

The current year capital asset addition included the system improvement project and an excavator.

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

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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, 2016:

	Balance at December 31, 2015	Additions	Deductions	Balance at December 31, 2016
Mortgage - USDA RD 91-01	\$ 3,853,194	\$ -	\$ (60,920)	\$ 3,792,274
Mortgage - USDA RD 91-03	\$ 744,619	\$ -	\$ (12,124)	\$ 732,496
Total Long-Term Debt	<u>\$ 4,597,813</u>	<u>\$ -</u>	<u>\$ (73,043)</u>	<u>\$ 4,524,770</u>

Debt Services Requirements to Maturity

Year Ending December 31,	Note Payable - RD #91-01		Total
	Principal	Interest	
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	69,885	96,231	166,116
2022-2026	379,728	450,852	830,580
2027-2031	435,632	394,948	830,580
2032-2036	499,766	330,814	830,580
2037-2041	573,342	257,238	830,580
2042-2046	657,750	172,830	830,580
2047-2051	754,585	75,995	830,580
2052	160,474	2,365	162,840
Total	<u>\$ 3,792,274</u>	<u>\$ 2,184,626</u>	<u>\$ 5,976,900</u>

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Year Ending December 31,	Note Payable - RD #91-03		Total
	Principal	Interest	
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	13,908	18,540	32,448
2022-2026	75,569	86,671	162,240
2027-2031	86,694	75,546	162,240
2032-2036	99,458	62,782	162,240
2037-2041	114,100	48,140	162,240
2042-2046	130,898	31,342	162,240
2047-2051	150,169	12,071	162,240
2052	9,737	52	9,790
Total	<u>\$ 732,496</u>	<u>\$ 412,974</u>	<u>\$ 1,145,470</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 \$10,236.48, 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, 2016

NOTE 8 -CONTINGENCIES

Litigation

According to management there were no known contingent liabilities at December 31, 2016, 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 May 3, 2017, 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, 2016.

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, 2016

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

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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 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, 2016, 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 May 3, 2017, 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 16-01.

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
May 3, 2017

RURAL WATER, SEWER, GAS & SOLID WASTE MANAGEMENT DISTRICT #8
MCINTOSH COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2016

Item 16-01: 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 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.